

CHAPTER 7

SEVERANCE TAX¹

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¶ 701 Introduction

The West Virginia Severance Tax Act became effective July 1, 1987. Prior to that date, producers of natural resources were subject to the business and occupation tax. The severance tax is similar to the former business and occupation tax imposed on persons engaged in the severance, extraction, or production of natural resources within this State. A significant change is that (with the exception of timber products, oil, and natural gas) the severance tax base now includes the value added to purchased natural resources by processing and treatment activities. The tax is imposed on all “producers” and processors of natural resources. The tax applies to all forms of natural resource production and is based on gross proceeds of sale or assigned gross values. There are eight natural resource classifications for determining the tax rate and the measure of taxable income. Natural resources include rock, stone, coal, shale, gravel, sand, clay, natural gas, oil, standing timber and all other forms of minerals. A minimum severance tax on coal was enacted in 1990. Effective December 1, 2005, additional severance taxes were imposed on the privileges of producing coal, natural gas, and timber. These additional severance taxes expired for natural resources produced after June 30, 2016. Additionally, the severance tax was eliminated for limestone, sandstone, and timber effective July 1, 2019.

¶ 702 Persons Subject to Tax

Law: W. Va. Code §§ 11-13A-2; 11-13A-3; 11-13A-3a; 11-13A-3b; 11-13A-3c; 11-13A-3d; 11-13A-3e; and 11-13A-5

Producers: The severance tax is imposed on every person exercising the privilege of engaging in West Virginia in the business of severing, extracting, reducing to possession, and producing for sale or commercial use, any natural resource product. Such taxpayers are referred to as “producers” of a natural resource. Generally, a producer is one who has ownership of the natural resource immediately after it is severed or extracted. The tax also applies to certain treatment processes and to persons who purchase or import certain natural resources for the purpose of processing them within this State for sale or commercial use.

Tax applies to the production of coal, including coal produced from waste or residue of prior mining, limestone (prior to July 1, 2019), natural gas, including coalbed methane gas, sand and gravel, sandstone (prior to July 1, 2019), timber (prior to July 1, 2019) and other natural resources. Salt produced solely for human consumption as food is not classified as a mineral subject to this severance tax. There is an exemption from the imposition of the severance tax for 9 years beginning July 1, 2023, for severing, extracting, reducing to possession and producing for sale, profit or commercial use “rare earth elements” (also known as rare earth metals or rare earth oxides) which are defined to include only yttrium, lanthanum, cerium, praseodymium, neodymium, promethium, samarium, europium, gadolinium, terbium, dysprosium, holmium, erbium, thulium, ytterbium, lutetium, and scandium, and also “critical minerals” which are defined to include only aluminum, antimony, arsenic, barite, beryllium, bismuth, cesium, chromium, cobalt, fluorspar, gallium, germanium, graphite, hafnium, indium, iridium, lithium,

magnesium, manganese, nickel, niobium, palladium, platinum, rhodium, rubidium, ruthenium, tantalum, tellurium, tin, titanium, tungsten, vanadium, zinc, zirconium, uranium, osmium, strontium, rhenium, potash, and bauxite. W. Va. Code § 11-13A-3c(b) (2023).

Contractors: Contractors producing a natural resource for others are considered to be performing a service for a producer and are not subject to the tax.² In cases where there is a dispute as to who is the producer subject to the tax, the status of the parties will be determined by the substance of their relationship. In determining whether a contractor who extracts a natural resource is a producer subject to the tax, the regulations indicate that the following elements will be considered by the Tax Commissioner:

- (1) An interest in the mineral in place;
- (2) An investment which is recoverable through depletion not recoverable through depreciation;
- (3) Contractual agreements which are not terminable without cause on short notice;
- (4) Entitlement to claim a depletion allowance for federal income tax purposes;
- (5) Obligation to pay royalties to another;
- (6) Exclusive right to sever, mine, cut, or extract the natural resource product
- (7) Income from the sale of mineral proceeds rather than from other sources; and
- (8) Control over the mineral from the time of extraction to sale.

(WVCSR § 110-13A-3.5.2.)

Co-owners: Co-owners of oil and natural gas in place, lessees and others who own part or all of oil and natural gas when it is produced (except royalty recipients in kind) are treated as a “group or combination acting as a unit” for severance tax purposes. If such co-owners are engaged in producing oil or natural gas through use of the same independent contract driller’s services, they are considered one taxpayer and are required to report the entire gross value on a single severance tax return notwithstanding provisions of private contracts for services or separate deposits of gross receipts. (W. Va. Code § 11-13A-5; WVCSR § 110-13A-5.1.)

Lessees: Lessees, sublessees, or other denominated lessees are considered to be producers of all of the oil or natural gas produced, regardless of any payment, in kind, to

² In this situation, the producer, not the contractor, owes the severance tax.

lessors, sublessors or other denominated lessors as part of such natural resources as rents or royalties. (W. Va. Code § 11-13A-5(b); WVCSR § 110-13A-5.2).

¶ 703 Value Subject to Tax – Generally

Law: W. Va. Code § 11-13A-2

Sales price: For natural resources severed and/or processed (except natural gas,³ oil, limestone, sandstone, and timber), the severance tax is levied on the “gross value” of the natural resource. The gross value is generally the amount received or receivable by the taxpayer for the sale of the resource. When natural resources are to be paid for at a future date, payment of the tax is also delayed until the time when the taxpayer recognizes gross income under the taxpayer’s method of accounting. Often, under a “take or pay contract,” a producer may be paid for natural resources not actually severed or extracted and such amounts may offset future purchases. In such instances, the producer is not required to pay the tax on the excess payment until such amount is credited against natural resources delivered to the purchaser. (WVCSR § 110-13A-2a.7.) In related party transactions, gross value is not to be less than fair market value for natural resources of similar grade and quality.

Processing in state by purchaser: When a natural resource (except natural gas, oil, limestone, and timber) is purchased from an unrelated party outside this State for the purpose of processing and resale or consumption within this State, the taxpayer must pay the tax on the gross value added by the processing. The gross value subject to tax is the amount received or receivable after processing less the amount paid or payable to the person actually severing the natural resource. If severed natural resources are purchased for the purpose of processing and consumption, the gross value is the fair market value of processed natural resources of similar grade and quality less the amount paid or payable to the person actually severing the natural resource.

Processing in state by foreign producer: If natural resources are severed outside this State and brought into this State by a taxpayer, for the purpose of processing and sale, the gross value subject to tax is the amount received or receivable after processing, less the fair market value of the natural resource of similar grade and quality immediately preceding the processing of the natural resource. If natural resources are severed outside of this State and brought into this State by a taxpayer for the purpose of processing and consumption, the gross value is the fair market value of processed natural resources of similar grade and quality less the fair market value of the natural resource of similar grade and quality immediately preceding the processing of the natural resource.

No deduction of expenses except certain freight charges: Generally, gross value is not reduced by any taxes or other expenses. (W. Va. Code § 11-13A-2(c)(6)(F).)

Specifically, amounts paid to an independent contractor as remuneration for the severing, extracting, producing, or processing of natural resources that the contractor has no ownership interest in cannot be deducted from gross value by the producer. (WVCSR

³ See, however, footnote 2.

§ 110-13A-2a.4.) However, producers of natural resources are permitted to deduct certain freight charges from the gross proceeds of sale to arrive at taxable value. (WVCSR § 110-13A-4.7). For example, deduction is permitted if the freight charges are paid by the producer to a common carrier, including independent haulers, for the delivery of the natural resources to a bona fide purchaser. (WVCSR § 110-13A-4.7.3.) Additionally, if a producer agrees to deliver his natural resources in his own equipment to a purchaser for a separate fee clearly set forth on the invoice or in the contract, the regulations allow a deduction for the delivery charge in the determination of gross sale proceeds. (WVCSR § 110-13A-4.7.4.) This is a limited exception to the general rule that no deduction is permitted for expenses incurred by the producer through the use of his own equipment. (WVCSR §§ 110-13A-2.7 and 110-13A-4.7.1.) This limited exception emphasizes the form, rather than the substance, of a sale. If the producer's transportation costs are not stated separately on the invoice or in the contract, they are generally not deductible.

¶ 704 Value Subject to Tax – Timber

Law: W. Va. Code §§ 11-13A-3b(e), 11-13A-4(d)

The gross value of timber is the market value at the point where the tree is severed, topped and delimbed (called "bucking" in the industry), but before any further cutting is done to produce lumber. (*Burruss v. Hardesty*, 171 W. Va. 61, 297 S.E.2d 836 (1982)). If a sale occurs at that point, the taxable value is equal to the gross sale proceeds. In the absence of such a sale, taxable value is the sales price of similar timber, taking into consideration the cost of transporting the timber to a market. The regulations provide that a taxpayer may elect to use the following rules to determine the gross value of timber subject to the severance tax:

- (1) A producer who sells his logs and timber by-products after bucking operations either where the trees were felled or at a central collection point may report 75% of the gross proceeds of sale under the tax;
- (2) A producer who sells and delivers timber in the same condition as when the timber leaves the forest may report 50% of his gross proceeds of sale under the tax; and
- (3) A producer who mills or otherwise manufactures timber for sale may report 25% of the gross proceeds of sale under the tax.

(WVCSR § 110-13A-4.4.2.).

The severance tax on timber terminated as of July 1, 2019 with respect to privileges exercised on and after that date. W. Va. Code § 11-13A-3b(e).

¶ 705 Value Subject to Tax – Oil and Gas

Law: W. Va. Code §§ 11-13A-2(c)(6)(G), 11-13A-2(c)(9)(A) and 11-13A-4(c)

The value of oil and gas is its value at the wellhead preceding transportation and transmission and any conversion or refining process. When the gas produced is not sold at the well-mouth, transportation and transmission expenses incurred by the producer before the point of sale are deducted from the gross proceeds of the sale. The regulations set forth alternative methods for valuing gas when the gas is not sold at the wellhead. However, the use of these methods is subject to discretion by the Tax Commissioner. (WVCSR § 110-13A-4.8.) The alternatives are as follows:

- (1) *Actual cost method*: From the gross proceeds of the sale of natural gas, deduct the actual direct costs of transportation and transmission through the system of the producer from the well-mouth to the point of sale. This deduction must be supported with schedules and statements of cost.
- (2) *First sale ceiling price method*: Producers subject to regulation by the Federal Energy Regulatory Commission (FERC) may use the “first sale ceiling price” as determined, adjusted, and published by the FERC pursuant to Section 2(21) of the Natural Gas Act of 1978. This method applies only to the production of “new gas” as defined by that Act.
- (3) *Average purchase price method*: The well-mouth value may be determined by the average purchase price of natural gas from the same pool or field or from the most proximate pool or field of the same quality and characteristics as the natural gas produced. The Tax Commissioner may disallow this method by establishing that the “average purchase price” does not accurately represent the current well-mouth value of the gas severed when compared to the ultimate selling price under present market conditions.
- (4) *Fixed percentage method*: The well-mouth value of natural gas not sold at the well-mouth may be determined by a standard allowance for transportation and transmission costs in the amount of 15% of the gross proceeds from the sale of the natural gas severed and produced. However, the Tax Commissioner reserves the right to disallow use of this method when it can be established that a 15% transportation deduction does not accurately represent the cost of transportation and transmission.

The tax does not apply to:

- (1) Free natural gas provided to any surface owner;
- (2) Natural gas produced from any well which produced an average of less than five thousand cubic feet of natural gas per day during the calendar year immediately preceding a given taxable period;

- (3) Oil produced from any oil well which produced an average of less than one-half barrel of oil per day during the calendar year immediately preceding a given taxable period; and
- (4) For a maximum period of ten years, all natural gas or oil produced from any well which has not produced marketable quantities of natural gas or oil for five consecutive years immediately preceding the year in which a well is placed back into production and thereafter produces marketable quantities of natural gas or oil. W. Va. Code § 11-13A-3a. However, beginning July 1, 2013, this exemption is void and of no force or effect with respect to horizontally drilled wells unless the producer established entitlement to the exemption prior to July 1, 2013. "Horizontally drilled well" means any well that is drilled using a "horizontal drilling" method as that term is defined in W. Va. Code § 22-6A-4(b)(5). W. Va. Code § 11-13A-22.

See also *Statoil USA Onshore Properties Inc. v. Irby, State Tax Commissioner*, 249 W. Va. 424, 895 S.E.2d 827 (W. Va. App. 2023).

¶ 706 Value Subject to Tax – Mining

Law: W. Va. Code §§ 11-13A-2(c)(7) and 11-13A-4(a) and (b)

Processing considered part of mining: The following treatment processes applied by the producer or contract miner to natural resources mined in this State shall be considered mining and therefore subject to the severance tax:

- (1) *Coal:* In the case of coal, the treatment processes include crushing, working, cleaning, breaking, drying, sorting, sizing, dust allaying, loading for shipment and freeze treatment. Production of coal will also include the severance, extraction and processing of gob piles, sludge ponds or other coal waste which, when processed, are sold as coal. WVCSR § 110-13A-4.1.1.
- (2) *Minerals customarily sold in crude form:* In the case of other minerals which are customarily sold in crude form, the value added by sorting, concentrating, sintering and substantially equivalent processes to bring the mineral to shipping grade and form, and loading for shipment is subject to the tax.
- (3) *Minerals not customarily sold in crude form:* In the case of other minerals which are not customarily sold in crude form, the value added by crushing, grinding and beneficiation by concentration (gravity, flotation, amalgamation or electrostatic or magnetic), cyanidation, leaching, crystallization, precipitation (but not including electrolytic deposition, roasting, thermal or electric smelting or refining), or substantially equivalent processes or combinations of processes used in the separation or extraction of the product or products from the ore or the minerals from other materials from the mine or other natural deposit is subject to the tax.

- (4) *Oil shale*: The value added by extraction from the ground, crushing, loading into the retort and retorting, but not hydrogenation, refining or any other process subsequent to retorting, is subject to the tax.

Processing not considered part of mining: The value added by the following treatment processes are not considered “mining” and is not subject to the tax: electrolytic deposition, roasting, calcining, thermal or electric smelting, refining, polishing, fine pulverization, blending with other materials, treatment effecting a chemical change, thermal action, and molding or shaping.

¶ 707 Value Subject to Tax – Limestone and Sandstone

Law: W. Va. Code §§ 11-13A-2(c)(9)(B), 11-13A-3(h) and 11-13A-4(e)

The production of limestone by quarrying or mining ends once the limestone or sandstone is severed from the earth. Limestone or sandstone, which is mined, is valued at the point it is reduced to possession at the portal of an underground mine. Limestone or sandstone, which is quarried, is valued at the point it is severed from the wall of the open quarry. WVCSR § 110-13A-4.5.

The severance tax on limestone and sandstone terminated as of July 1, 2019 with respect to privileges exercised on and after that date. W. Va. Code § 11-13A-3(h).

¶ 708 Rates of Tax

Law: W. Va. Code §§ 11-13A-3, 11-13A-3a, 11-13A-3b, 11-13A-3c, 11-13A-3d, 11-13A-3e and 11-13A-6

The rates of severance tax are determined according to the classification of the resource produced and are as follows:

TAX RATES
(on gross value of the natural resource subject to tax)

NATURAL RESOURCE CLASSIFICATION	Tax Rate
Coal *	5.00%
When produced by underground mining methods from seams 37” to 45” thick	2.00%
When produced by underground mining methods from seams less than 37” thick	1.00%
When produced from waste and residue from prior mining	2.50%
Thermal or Steam Coal on and after July 1, 2019**	4.30%
Thermal or Steam Coal on and after July 1, 2020**	3.70%
Thermal or Steam Coal on and after July 1, 2021**	3.00%
Limestone or Sandstone quarried or mined (prior to July 1, 2019)	5.00%
Oil	5.00%
For wells (excluding horizontal wells) producing between ½ to 10 barrels per day***	2.50%
Natural Gas	5.00%
For wells (excluding horizontal wells) producing between 5,000 to 60,000 cubic feet per day ****	2.50%
Natural gas – methane gas	5.00%

Sand, gravel or other mineral product not quarried or mined	5.00%
Timber produced after June 30, 2016, but before July 1, 2019	1.50%
Other Natural Resources	5.00%

* The rates for coal include the 0.35% rate imposed for the benefit of counties and municipalities.

** Thermal or steam coal is defined as coal sold for the purpose of generating electricity. W. Va. Code § 11-13A-3(b) and (c); see also 110 C.S.R. Series 13AC (2019).

*** See W.Va. Code § 11-13A-3a((b), effective January 1, 2020.

**** See W.Va. Code § 11-13A-3a((b), effective January 1, 2020.

These rates do not include the minimum severance tax on coal, see ¶ 712, the former additional tax on producers of coal, gas, or timber, see ¶ 713, the special reclamation tax, see ¶ 714, or the special tax on coal producers, see ¶ 715.

¶ 709 Waste Coal and River Coal

Law: W. Va. Code § 11-13A-3e.

Coal produced from the waste and residue of prior mining is generally not subject to the 5% tax on the privilege of severing coal or to the minimum severance tax on the privilege of severing coal. The privilege of producing waste coal is subject to tax, however, at the 2.5% rate of tax when the producer of the waste coal also processes the waste coal for sale, profit, or commercial use.

The producer of waste coal is also subject to the 2 cents per ton special tax on coal production imposed by W. Va. Code § 22-3-32 and to the 27.9 cents per ton special coal reclamation tax imposed by Section 22-3-11. See ¶ 714 below.

However, the 2.5% rate of tax applies only when the person extracting and recovering material from refuse, gob piles or other sources of waste coal located in this State subsequently processes the waste coal for sale, profit, or commercial use. If a person extracts waste coal and sells the waste coal to another person either for processing or not for further processing, the value of the waste coal sold is taxed under the coal classification at the 5% rate. However, if the waste and residue reduced to possession is not predominately coal, the value of the waste and residue is taxed under the “other natural resource” classification at the 5% rate.

Processing without extracting. – If a person buys uncleaned, unprocessed waste and residue of prior mining that was extracted by another, and then washes and processes the material and prepares it for sale as coal, the value added by the processing is taxed at the 5% rate of tax.

When no tax is due. – If the extracted waste or residue from prior mining is not sold, then under W. Va. Code § 11-13A-2(c)(5) no severance tax is due. Additionally, severance tax does not apply to any electrical power co-generation plant burning material from its wholly owned refuse or gob pile. W. Va. Code § 11-13A-3e(e).

River Coal. – Dredging of coal from a riverbed is subject to the 5% severance tax on the privilege of producing coal and to the 75 cents per ton minimum severance tax. Recovery of coal from a riverbed is not treated as the production of coal from the waste or residue of prior mining.

¶ 710 Credits and Rebates Against Tax

Law: W. Va. Code § 11-13A-10

Annual credit allowance: Each taxpayer is entitled to a credit of \$41.67 per month (\$500 per tax year) for each month it is subject to the severance tax imposed by W. Va. Code § 11-13A-1 *et seq.*

Credit for payment of minimum severance tax on coal: The minimum severance tax imposed by W. Va. Code § 11-12B-3 is allowed as a credit against the severance tax imposed by W. Va. Code § 11-13A-3. W. Va. Code § 11-12B-3(b).

Coal Severance Tax Rebate: Effective July 1, 2019, coal producers making a capital investment in qualifying new machinery and equipment directly used or consumed in the production of coal at a coal mine or coal preparation or processing facility are eligible for a rebate for a portion of severance taxes imposed by W. Va. Code § 11-13A-3 attributable to the increase in the production of coal from the capital investment. Application for the rebate is required to be submitted to the State Tax Commissioner. W. Va. Code § 11-13EE-1 *et seq.* The State Tax Division has provided interpretive rules regarding the rebate at 110 C.S.R. Series 21F (2022).

¶ 711 Minimum Severance Tax on Coal

Law: W. Va. Code §§ 11-12B-1 *et seq.*

Rate: There is a minimum severance tax of 75¢ per ton (2,000 pounds) on coal produced for sale or use including coal extracted from waste deposits.

Exemption: The minimum severance tax on coal does not apply to coal produced by underground mining methods from a seam of coal whose average thickness is 45 inches or less. W. Va. Code § 11-13A-3(f).

Credit against the severance tax: The minimum severance tax may be credited against 4.65% of the 5% severance tax on coal imposed by W. Va. Code § 11-13A-3. The remaining .35% of the severance tax (which is designated to go to the counties and municipalities by West Virginia statute) is not subject to credit for the minimum severance tax.

Provisions in common with the severance tax: The provisions of the minimum severance tax regarding: accounting periods, methods of accounting, annual returns, periodic installment payments of estimated tax, time and place for paying the tax, extension of time for paying the tax, place for filing returns, signing of returns, requirement

of bond, records, general procedure and administration, and criminal penalties are substantially the same as for the severance tax.

Collection of tax by purchaser: If a taxpayer is delinquent in payment of the tax, the Tax Commissioner may require the first purchaser of the coal to withhold the tax due.

¶ 712 Allocation of Portion of Oil and Gas Severance Tax to Counties and Municipalities and WV Department of Environmental Protection

Law: W. Va. Code § 11-13A-5a

Effective July 1, 1997, and thereafter, ten percent of the tax attributable to the severance of oil and gas imposed by W. Va. Code § 11-13A-3a is dedicated for the use and benefit of counties and municipalities within the State. Effective July 1, 2023, and every year thereafter, three fourths of one percent of the tax attributable to the severance of oil and gas imposed by such section (not to exceed \$1.2 million) is hereby dedicated for the use and benefit of regulating the oil and gas industry by the Office of Oil and Gas in the Department of Environmental Protection and shall be deposited in the Oil and Gas Operating Permit and Processing Fund to ensure that the Office of Oil and Gas has sufficient funding to support its regulatory mission of ensuring the safety of the natural environment of this State.

¶ 713 Special Reclamation Tax on Coal Production for Special Reclamation Fund

Law: W. Va. Code §§ 22-3-11 and 22-3-11a

Rate: A special reclamation tax equal to 27.9 cents per ton is levied on clean coal produced in West Virginia or clean coal extracted from a refuse pile or slurry pond. The special reclamation tax is imposed upon the same tonnage (clean coal) and is owed by the same party (the producer) as the minimum severance tax. The tax also applies to tonnage of clean coal produced by underground mining methods from seams of coal whose average thickness is 45 inches or less.

No credit against severance tax: The special reclamation tax is in addition to all other taxes and is not allowed as a credit against the severance tax or minimum severance tax.

Provisions in common with minimum severance tax: The special reclamation tax is collected by the Tax Commissioner in the same manner and at the same time as the minimum severance tax, but the tax is not to be construed as an increase in either the severance tax or the minimum severance tax.

Special Reclamation Fund: A portion of the 27.9 cents per ton special reclamation tax – 12.9 cents per clean ton -- is deposited in the Special Reclamation Fund. The rest is deposited in the Special Reclamation Water Trust Fund. Monies in the Special Reclamation Fund are expended in accordance with appropriations by the Legislature for the purpose of reclaiming abandoned mine sites.

Special Reclamation Water Trust Fund: A portion of the 27.9 cents per ton special reclamation tax – 15 cents per clean ton -- is deposited into the Special Reclamation Water Trust Fund and expended in accordance with appropriations by the Legislature for the purpose of meeting the water reclamation responsibilities of the State.

¶ 714 Special Tax on Coal Production for Mines and Minerals Operations Fund

Law: W. Va. Code §§ 22-3-32 and 22-3-32a

Rate: There is a special annual tax equal to two cents per ton of coal produced in West Virginia. The special tax is imposed upon the same tonnage (clean coal) and is owed by the same party (the producer) as the minimum severance tax. The tax also applies to tonnage of clean coal produced by underground mining methods from seams of coal whose average thickness is 45 inches or less and to coal produced or recovered from the waste and residue of prior mining.

No credit against severance tax: The special tax is in addition to all other taxes and is not allowed as a credit against the severance tax or minimum severance tax.

Provisions in common with minimum severance tax: The special tax is collected by the Tax Commissioner in the same manner and at the same time as the minimum severance tax, but the tax is not to be construed as an increase in either the severance tax or the minimum severance tax.

Mines and Minerals Operations Fund: The special tax is deposited by the Tax Commissioner in the Mines and Minerals Operations Fund in the State treasury to be expended in accordance with appropriations by the Legislature for the purpose of carrying out the statutory duties relating to enforcement of environmental regulatory programs for the coal industry.

¶ 715 Accounting Periods and Methods

Law: W. Va. Code §§ 11-12B-4 and 11-13A-7

A taxpayer's accounting period for severance tax return purposes must be the same as that used for federal income tax reporting purposes. If a taxpayer changes its tax year for federal income tax purposes, the taxpayer must conform for purposes of the severance tax and provide a copy of the authorization from the Internal Revenue Service for the change with its annual severance tax return.

The taxpayer's method of accounting for severance tax return purposes must be the same as the accounting method employed for federal income tax purposes. If the taxpayer's method of accounting is changed for federal income tax purposes, a conforming change must be made for the severance tax and a copy of the Internal Revenue Service's approval of the accounting change must be filed with the annual severance tax return.

¶ 716 Records

Law: W. Va. Code §§ 11-12B-14 and 11-13A-18

Taxpayers must maintain appropriate records relating to the severance tax and its computation. These records must be maintained for a period of at least three years subsequent to the return filing. In cases where the time for making an assessment has been extended, the record retention period is automatically extended.

¶ 717 Returns and Payments of Tax

Laws: W. Va. Code §§ 11-12B-5, 11-12B-7, 11-12B-8, 11-12B-9, 11-12B-10, 11-12B-11, 11-3A-8, 11-13A-9, 11-13A-9a, 11-13A-10, 11-13A-11, 11-13A-12, 11-13A-13, 11-13A-14, and 11-13A-15

Monthly returns: Monthly severance tax returns are required for taxpayers with estimated tax liability of more than \$1,000 per month. Each month's return is due on or before the last day of the following month.

Quarterly returns: If the monthly estimated tax is \$1,000 or less, a return is due quarterly within one month after the expiration of each quarter if any tax is due.

Annual returns: An annual severance tax return is required by the end of the month following the close of the taxable year. The annual return is required by every taxpayer filing monthly or quarterly severance tax returns whether or not any tax is due.

Consolidated returns: Consolidated returns may be filed for the severance tax.

Extensions: The Tax Commissioner may, upon written request received on or prior to the due date of any return, grant a reasonable extension of time for filing the tax return, if good cause is shown. Before an extension of time for filing will be granted, a tentative tax return must be filed and any tax shown to be due paid. However, an extension of time does not extend the time for payment of the tax. The Tax Commissioner may extend the time for payment of the amount of tax shown to be due on any annual or estimated return for a reasonable period not to exceed six months from the due date of the return.

¶ 718 Bond

Law: W. Va. Code §§ 11-12B-12 and 11-13A-16

The Tax Commissioner may require a taxpayer to post a cash or surety bond, whenever he deems it necessary to ensure compliance with the severance tax. The bond may not be less than \$500.

¶ 719 Agreement for Processor to Pay Tax

Law: W. Va. Code § 11-13A-17(a)

In the case of natural resources other than natural gas, the Tax Commissioner may authorize the taxpayer processing the natural resource to report and pay the full amount

of severance tax which would be due on the completed product. For example, since the owner/operator of a coal processing plant is engaged in a production activity for severance tax purposes, such owner/operator may be authorized to enter into agreements with independent producers from whom raw coal is purchased to pay the severance tax to this State on both the severance and processing activities. The owner/operator would presumably withhold the independent producer's share of the tax from the amount paid for the raw coal. The tax liability of the independent producer, however, is determined without any deduction for his share of the severance tax. The authorized agreement must be in writing, must permit the parties to terminate upon giving thirty days' written notice, and must permit the Tax Commissioner, upon written notice, to immediately terminate the agreement for failure of one of the parties to comply with the terms of the agreement.

¶ 720 Procedure and Administration

Law: W. Va. Code §§ 11-12B-15, 11-13A-19, 22-3-11a and 22-3-32a

The West Virginia Tax Procedure and Administration Act discussed in Chapter 9 applies to the minimum severance tax, the severance tax, the additional severance taxes, the special reclamation tax, and the special tax on coal production.

¶ 721 Collection of Tax by Purchaser of Natural Gas

Law: W. Va. Code § 11-13A-17(b)(2)

Each person first purchasing natural gas after it has been produced (or after it has been produced and processed) is liable for collecting the severance tax imposed on the producer and remitting the tax to this State. The first purchaser must report purchases of natural gas monthly, showing the quantities of natural gas purchased, the price paid, and the date of purchase on a form prescribed by the Tax Commissioner. The Tax Commissioner may require the natural gas producer to remit the severance tax if he determines that this would be more efficient and effective. Where the producer of natural gas sells to the ultimate consumer, the producer must remit the tax. (WVCSR § 110-13A-17.) Currently, the Tax Commissioner does not require first purchasers to collect or remit severance tax. (WVCSR § 110-13A-17.2.2)

¶ 722 Reports by Persons Severing Natural Gas

Law: W. Va. Code § 11-13A-17(b)(3)

Currently, the Tax Commissioner requires reporting and remittance of severance taxes by the severor. This requirement is authorized by WVCSR § 110-13A-17.2.2 and 2.3.

¶ 723 Nonresidents Severing Timber

Law: W. Va. Code § 11-13A-16a

Nonresident timber operators must comply with the following requirements before severing timber in this State:

- (1) Obtain a business registration certificate from the State Tax Commissioner;
- (2) Obtain a forestry license from the Division of Forestry of the Department of Commerce;
- (3) Provide the Tax Commissioner with written notice of intent to sever the timber identified in the written notice, at least 30 days but not more than 90 days before severance begins, and provide all the information required by W. Va. Code § 19-1B-6; and
- (4) If required by the Tax Commissioner, prepay with the notice the timber severance tax, or post a cash or surety bond equal to 4% of the estimated gross value of the timber to be severed, which value may not be less than stumpage value.

A nonresident timber operator is a person or company that does not have a business location in this State, or, during the three-month period preceding the date on which the application for business registration is filed, did not have a permanent office or any other permanent place of business in this State for the conduct of timbering operations.

¶ 724 Severance Tax Returns

Forms for computing and reporting the various taxes discussed in this chapter are available at the State Tax Division's website: tax.wv.gov/Business/SeveranceTax

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