Local Mandate Fiscal Impact Estimate Kentucky Legislative Research Commission 2017 Regular Session

Part I: Measure Information

Bill Request #: 1654						
Bill #: HB 363						
Bill Subject/Title: AN ACT relating to the natural resources severance and processing tax						
Sponsor: Rep. Suzanne Miles						
Unit of Government:xCityxCountyxUrban-CountyxCharter CountyxConsolidated LocalxGovernment						
Office(s) Impacted: Local Government Economic Assistance Fund						
Requirement: <u>x</u> Mandatory Optional						
Effect on Powers & Duties: <u>x</u> Modifies Existing Adds New Eliminates Existing						

Part II: Purpose and Mechanics

HB 363 amends the natural resources severance and processing tax by expanding the tax base and allowing a new credit against the tax.

Section 1 amends KRS 143A.010 to change the definition of "processing." Under the definition proposed in this bill, processing limestone shall now include unloading or loading limestone, sand, or gravel that has not been severed or treated in Kentucky. This more expansive definition expands the tax base for the natural resources severance and processing tax.

Section 2 amends KRS 143A.035 to allow a credit against the natural resources severance and processing tax. Under this bill, a credit would be allowed for limestone, severed or processed outside Kentucky and then unloaded in Kentucky, on which a severance and processing tax has been paid to another state. The credit would be the amount of tax paid to the other state, up to the amount of tax owed to Kentucky.

Part III: Fiscal Explanation, Bill Provisions, and Estimated Cost

This bill would have no added administrative burden on local governments. However, it could have an impact on the revenues of some cities and counties, as discussed below.

The fiscal impact of this bill on local government revenues is indeterminable. This is because the bill expands the tax base, but allows a credit against the tax. Due to a lack of data as to the amount of imported limestone that may become taxable under the bill and the number of taxpayers who will be able to offset their tax liabilities by claiming the new credit, the net impact of this bill on revenues cannot be determined.

While the tax base would be expanded to apply to out-of-state limestone that is unloaded in Kentucky, Kentucky is overall a net exporter of limestone. Therefore, it is possible that only a small amount of stone would be imported and this bill may lead to increased revenues because of the expansion of the tax base. This is because any amount of limestone that is imported into Kentucky becomes taxable, since unloading is "processing" under the new definition in Section 1 of this Act. The tax rate of 4.5% would be applied to the gross value of that limestone imported less the amount paid by that taxpayer whoever first severed the limestone.

Any local fiscal impact would be limited to those cities and counties receiving distributions from the local government economic assistance fund (LGEAF) pursuant to KRS 42.470(2) and 42.475—the places where limestone is severed or processed. The severance taxes collected on natural resources are allocated equally to the general fund and the LGEAF. The LGEAF portion is distributed among cities and counties according to their share of the resources severed or processed. Any change in the total amount of tax collected will have a corresponding effect on the amount of that revenue flowing to these localities through the LGEAF. As stated above, the impact on tax collected is indeterminable, but any direct impact to local governments will be limited to local governments receiving money from the LGEAF.

Data Source(s): LRC Appropriations & Revenue Staff

Preparer:	Amit M. Shanker	Reviewer:	KHC	Date:	2/17/17
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