

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2018 REGULAR SESSION**

MEASURE

2018 BR NUMBER **0102**

HOUSE BILL NUMBER **26**

RESOLUTION NUMBER _____

AMENDMENT NUMBER _____

SUBJECT/TITLE **An ACT relating to the natural resources severance and processing tax.**

SPONSOR **Representative S. Miles**

NOTE SUMMARY

FISCAL ANALYSIS: IMPACT NO IMPACT INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: STATE LOCAL FEDERAL

BUDGET UNIT(S) IMPACT: _____

FUND(S) IMPACT: GENERAL ROAD FEDERAL RESTRICTED AGENCY Local Government
Economic Assistance Fund OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2017-2018	2018-2019	2019-2020	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES		\$1.21 million	\$1.32 million	\$1.32 million
EXPENDITURES				
NET EFFECT		\$1.21 million	\$1.32 million	\$1.32 million

() indicates a decrease/negative

MEASURE’S PURPOSE: The purpose of this bill is to expand the tax base for the natural resources severance and processing tax and allow a new credit against the tax.

PROVISIONS/MECHANICS: 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 that has not been severed or treated in Kentucky. This more expansive definition broadens 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.

Sections 3–9 of this bill amend various sections of the Kentucky Revised Statutes to allow the Department of Revenue to share data with the Legislative Research Commission. Section 10 of this bill sets an effective date of August 1, 2018.

FISCAL EXPLANATION: It is estimated that the provisions of this bill will have a net positive fiscal impact of up to \$1.32 million. While the amount of limestone currently severed and processed in Kentucky is known, there is limited data on the movement of limestone into and out of the state. To estimate the fiscal impact of this measure, it was assumed that the bulk of the shipments of limestone into Kentucky occur on the state’s major waterways.

Data from the US Army Corps of Engineers reported that approximately 3.54 million tons of limestone, sand, shells, clay, salt, and slag arrived in Kentucky ports from other states in 2016. An analysis of further shipment data led to an estimate that approximately 86% of this tonnage total was limestone. For reference, in 2013, Kentucky severed and processed about 46.1 million tons of limestone.

Assuming an average price of \$9.78 per ton, the potential fiscal impact of expanding the tax base is the addition of \$1.34 million per year. The loss associated with the credit is estimated to be \$16,400 per year, since the states from which we import limestone have lower severance tax rates or no severance tax on limestone. This leads to a net positive impact of approximately \$1.32 million at full implementation for this measure. Since the bill would not take effect until August 1, 2018, there is a slightly lower impact for FY 2018–2019.

DATA SOURCE(S): LRC Appropriations and Revenue Staff; LRC Economists; U.S. Army Corps of Engineers

PREPARER: Amit M. Shanker **NOTE NUMBER:** 2 **REVIEW:** JAB **DATE:** 1/16/2018