Local Government Mandate Statement
Kentucky Legislative Research Commission
2021 Regular Session

Part I: Measure Information

Bill Request #: 1630

Bill #: HB 548

Document ID #: 3429

Bill Subject/Title: AN ACT relating to the natural resources severance and processing tax.

Sponsor: Representative Suzanne Miles

Unit of Government: **X** City **X** County **X** Urban-County **X** Charter County **X** Consolidated Local **X** Unified Local Government

Office(s) Impacted: Local Government Economic Assistance Fund

Requirement: **X** Mandatory ___ Optional

Effect on Powers & Duties: **X** Modifies Existing ___ Adds New ___ Eliminates Existing

Part II: Bill Provisions and the Estimated Fiscal Impact Relating to Local Government

21 RS BR 1630 amends the natural resources severance and processing tax by expanding the tax and allowing a new credit against the tax.

Section 1 of the Act amends KRS 143A.010 to change the definition of "processing." Under the definition proposed in this bill, processing shall include the act of loading or unloading for shipment limestone that has not been severed or processed in the Commonwealth. This proposed definition expands the tax base.

Section 2 of the Act amends KRS 143A.035 to allow a new credit against the tax. The credit will be allowed for limestone that is severed and processed outside of Kentucky, and then unloaded in Kentucky, upon which a severing and processing tax has already 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. Also, there is a reporting requirement to track the amount of credits taken by taxpayers annually.

This bill would have no added administrative burden on local governments. It could however have an impact on revenues of some counties, as discussed below.

The fiscal impact of this bill on local government revenues is indeterminable. This is because the bill both expands the tax base and also expands credits against the tax. Due to a lack of reliable data as to the amount of imported limestone and number of taxpayers that may be able to take the expanded credit, the net impact of this bill cannot be determined.

While the tax base would be expanded to apply to out-of-state limestone that is unloaded in Kentucky, Kentucky is an overall net exporter of limestone. Therefore, it is possible that only a small amount of stone would be imported and this bill may lead to negligible increased revenues because of the expansion of the tax base. 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 of tax paid by that taxpayer to the state in which the limestone was first severed.

Of our surrounding states, only three have a severance tax that would affect limestone. West Virginia has a tax rate of 5%, Ohio of $.02 per ton, and in Tennessee, there is a local option of taxing up to $.15 per ton. Therefore, any exemptions would come from purchases of limestone from these states. Other surrounding states do not have a severance tax on limestone. As far as nationwide, it would most likely be cost-prohibitive to buy limestone from any state other than a border state due to shipping costs.

Any local impact would be limited to those cities and counties receiving distributions from the local government economic assistance fund (LGEAF) pursuant to KRS 42.450(2), 42.470(2), and 42.475, which are the localities where natural resources are severed and/or processed. The severance taxes collected on natural resources are allocated equally to the general fund and the LGEAF. The latter portion is distributed among cities and counties according to their share of the resources severed and/or processed. Any change in the total amount of tax collected will have a corresponding effect on the amount of that revenue flowing through to these local governments through the LGEAF. As stated, the impact on tax collected is indeterminable, but any direct impact to local governments will be limited to local governments that receive money from the LGEAF.

Part III: Differences to Local Government Mandate Statement from Prior Versions

The Part II section above pertains to the bill as drafted and there are not any prior versions of the bill to complete the Part III section.

Data Source(s): LRC Appropriations and Revenue Staff

Preparer: Jennifer Hays **Reviewer:** KHC **Date:** 2/8/21