



## Severance Tax

The severance tax, enacted by the Ohio General Assembly effective in 1972, is paid by persons or firms that extract, or sever, certain natural resources from the soil or waters of Ohio. The tax produced \$15.0 million during fiscal year 2014. Severers are licensed by the Tax Commissioner and other designated state agencies.

the end of each state budget biennium. The rate is 12 cents if the balance of the fund is \$10 million or more; 14 cents if it is between \$10 million and \$5 million; and 16 cents if it is \$5 million or less.

### Taxpayer

(Ohio Revised Code 5749.02)

The tax is paid by holders of severance permits.

### Exemptions and Credits

(R.C. 5749.03)

An annual exemption applies to natural resources used on the land from which they are taken by the severer, as part of the improvement of or use in the severer's home- stead. The exemption is limited to resources with a yearly cumulative market value of \$1,000 or less.

### Tax Base

(R.C. 5749.02)

The tax is levied on the weight or volume of certain natural resources extracted from the soil or water of Ohio.

### Special Provisions

The Chief of the Division of Mineral Resources Management certified on June 30, 2009 that the balance of the Reclamation Forfeiture Fund was less than \$5 million. As a result, the reclamation tax rate on coal mining operations without a full cost bond is 14 cents effective Jan. 1, 2012. The previous rate was 16 cents.

### Rates

(R.C. 5749.02)

The tax rates on the severance of most natural resources are as follows:

Resource	Tax Rate
Clay, sandstone, shale, conglomerate, gypsum and quartzite	1 cent per ton
Dolomite, gravel, sand and limestone	2 cents per ton
Natural gas	2.5 cents per Mcf <sup>1</sup>
Oil	10 cents per barrel
Salt	4 cents per ton

Although not a part of the severance tax, oil and gas well owners are subject to an oil and gas regulatory cost recovery assessment effective July 1, 2010. The assessment is based on a formula that takes into consideration the number of wells owned, the production of those wells, and the amount of severance tax paid. This assessment is reported on the severance tax return by either the owner or severer.

### Filing and Payment Dates

(R.C. 5749.06)

Payments are due May 15, Aug. 14, Nov. 14, and Feb. 14 for the quarterly periods ending the last day of March, June, September and December, respectively. Annual returns are due Feb. 14. Electronic filing and payment are required.

The base tax rate on coal is 10 cents per ton. This does not include two additional levies that have applied since April 1, 2007:

- An additional 1.2 cents per ton on surface mining operations.
- An additional 12, 14 or 16 cents per ton reclamation tax on operations without a full cost bond, depending on the amount. This rate varies based on the amount remaining in the state Reclamation Forfeiture Fund at

### Disposition of Revenue

(R.C. 5749.02)

The Geological Mapping Fund receives:

- 4.76 percent of the 10 cent per ton base tax on coal;
- 15 percent of salt severance tax collections through Oct. 15, 2009 and all salt severance revenue thereafter;

<sup>1</sup> Mcf means 1,000 cubic feet.

- 7.5 percent of limestone, dolomite, sand and gravel severance tax collections; and
- 10 percent of oil and gas severance tax collections.

The Unreclaimed Lands Fund receives:

- 14.29 percent of the 10-cent tax on coal;
- 42.5 percent of limestone, dolomite, sand and gravel severance tax collections;
- 85 percent of salt severance tax collections through Oct. 15, 2009; and
- all of the 1.2 cent tax on coal mined using surface mining methods.

The Oil and Gas Well Fund receives 90 percent of the oil and gas severance tax collections.

The Coal Mining Administration Fund receives 80.95 percent of the 10-cent tax on coal. The Reclamation Forfeiture Fund receives all of the revenue from the tax on coal operations without a full cost bond, which may vary from 12 cents to 16 cents depending on the amount in the fund.

The Surface Mining Administrative Fund receives:

- 50 percent of limestone, dolomite, sand and gravel severance tax collections;
- all clay, sandstone, conglomerate, shale, gypsum and quartzite severance tax collections.

<b>Severance Tax Revenues (rounded in millions)</b>	
<b>Fiscal Year</b>	<b>Total</b>
2010	\$11.0
2011	11.6
2012	10.2
2013	12.3
2014	15.0

## Administration

The tax is administered by the Tax Commissioner, who also makes distribution to the various funds.

## Ohio Revised Code Citations

Chapter 5749.

## Recent Legislation

**Amended Substitute House Bill 59 (effective for the calendar quarter that includes January 1, 2014) Electronic filing and payment** - This bill requires the electronic filing and payment of all severance tax returns and payments.

## History of Major Changes

1971	Legislature enacts House Bill 475, creating the tax effective Jan. 1, 1972.
1981	House Bill 1051 enacts a temporary 1 cent per ton additional tax on coal, to be collected depending on the balance in the Defaulted Areas Fund.
1983	Effective July 1, 1983, House Bill 291 increases rates from 3 cents to 10 cents per barrel of oil and from 1 cent to 2.5 cents per Mcf of natural gas.
1985	House Bill 238 increases the permanent rate on coal from 4 cents to 7 cents per ton, and includes a second 1 cent per ton temporary tax on coal, also conditioned on the balance in the Defaulted Areas Fund. On July 1, 1985, collection begins on both temporary levies.
1989	Effective July 1, 1989, House Bill 111 increases the rate on limestone, dolomite, sand and gravel by 1 cent per ton. The bill also levies a 1 cent per ton tax on clay, sandstone, shale, conglomerate, gypsum and quartzite.
1998	The 122nd General Assembly enacts Senate Bill 187, making one of the temporary 1 cent per ton of coal levies permanent effective the following year.
2006	Effective April 1, 2007, House Bill 443 changes the base rate on coal to 10 cents per ton, eliminating the old temporary levy. The bill also adds an additional levy of 1.2 cents per ton for surface mining operations and an additional levy of up to 16 cents per ton on operations without a full cost bond.
2009	House Bill 1 directs all revenue from the salt component of the tax to the Geological Mapping Fund; previously the fund received only 15 percent of this revenue.
2010	Senate Bill 165 creates an oil and gas "regulatory cost recovery assessment" effective July 1, 2010. While not part of the severance tax, the assessment is reported on severance tax returns.
2013	House Bill 59 required electronic filing and payment of the tax.

## Comparisons with Other States

(As of July 1, 2014)

Georgia, North Carolina<sup>1</sup>, and Pennsylvania do not levy severance taxes. Pennsylvania levies impact fees on unconventional gas wells (“horizontal wells”) ranging from \$60,000 in the first year of production to \$5,000 in the fifteenth year of production, varying with the price of natural gas. The fee is not on stripper or marginal wells. Rates in other states are listed below.

State	Commodity	Tax
Indiana	Oil and Gas	Either 1 percent of value or 24 cents per barrel of oil and 3 cents per Mcf of natural gas.
Kentucky <sup>2</sup>	Oil	4.5 percent of market value.
	Gas, coal & other natural resources	4.5 percent of gross value; the minimum tax on coal for a reporting period is 50 cents per ton severed.
Michigan <sup>3</sup>	Oil	6.6 percent of gross cash market value.
	Gas	5 percent of gross cash market value.
	Nonferrous metallic minerals	2.75 percent of taxable mineral value.
Ohio	See Rates section of this chapter.	
Tennessee <sup>4</sup>	Oil and Gas	3 percent of the sale price.
	Coal	\$1 per ton.
	Minerals	Only county levies apply.

Texas <sup>5</sup>	Oil and gas concentrate	The greater of 4.6 percent of market value or 4.6 cents per barrel.
	Recovered oil	2.3 percent of market value.
	Crude Petroleum Tax	0.001875 cents per barrel in addition to oil production tax.
	Gas	7.5 percent of market value.
	Sulphur	\$1.03 per long ton.
West Virginia <sup>6</sup>	Oil	5 percent of gross value.
	Gas	5 percent of gross market value plus a temporary 4.7 cents per Mcf tax.
	Coal	5, 2, or 1 percent of gross market value, depending upon thickness of the seam.
	Coal refuse (or gob piles)	2.5 percent of gross market value if extracted and processed.
	Coal bed methane	5 percent of gross market value.
	Timber	1.22% (suspended by statute).

<sup>1</sup> The North Carolina Department of Environment and Natural Resource can assess against each barrel of gas produced and saved up to ½ a mill per McF. North Carolina levies a primary forest product assessment.

<sup>2</sup> The Kentucky tax on limestone for specified purposes is limited to 14 cents per ton; the tax on clay used for specified purposes is 12 cents per ton. Taxpayers who sell and process clay within the state to landfill owners for the purpose of landfill construction are eligible for a credit equal to the tax paid.

<sup>3</sup> In Michigan, a lesser rate of 4 percent of gross cash market value for crude oil from stripper wells, marginal producing properties, and carbon dioxide secondary or enhanced recovery projects. The rate does not include a fee imposed at the rate of up to 1% of the gross cash market value of all oil and gas produced in Michigan. The current fee is 0.92% for 2014.

<sup>4</sup> For Tennessee, only counties levies apply to minerals such as sand, gravel, sandstone, chert or limestone. Rates are set by the counties, but may not exceed 15 cents per ton.

<sup>5</sup> Rates shown for Texas do not include an additional regulatory fee for oil and gas field clean-up at 5/8 of 1 cent per barrel.

<sup>6</sup> Rate shown on West Virginia coal includes a 0.35 percent additional local tax on coal. However, the rate does not include the following: 27.9 cents per ton of clean coal mined through a surface mine operation and 56 cents per ton on all coal mined in the state. Rate shown for timber in West Virginia includes 1.22 percent basic rate and 2.78 percent temporary additional levy. The temporary 4.7 cent McF tax on gas will expire when the state's workers' compensation debt reduction revenue bonds are retired or the debt service is paid.

<b>Table 2: Severance Tax Collections<sup>1</sup></b>						
<b>Fiscal Years 2010 - 2014</b>						
<b>Natural Resource</b>	<b>Tax Rate</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Coal	10 cents per ton	\$2,668,161	\$2,734,665	\$2,283,374	\$3,213,461	\$1,919,112
Coal - Reclamation Tax	14 cents per ton	3,488,169	3,964,177	3,240,272	4,116,101	2,472,986
Coal - Surface Mining	1.2 cents per ton	112,845	105,995	103,206	97,934	69,055
Natural Gas	2.5 per 1,000 cubic feet	2,067,986	2,108,546	2,049,023	2,270,199	3,320,113
Limestone	2 cents per ton	883,334	1,004,210	1,186,194	1,119,296	1,023,849
Oil	10 cents per barrel	487,165	474,886	467,111	567,887	652,574
Gravel	2 cents per ton	256,826	255,360	260,370	298,933	252,366
Sand	2 cents per ton	293,012	330,431	329,857	368,858	302,094
Dolomite	2 cents per ton	9,006	18,714	21,173	46,933	10,586
Salt	4 cents per ton	233,521	224,192	195,626	152,771	139,478
Clay	1 cents per ton	11,501	8,830	12,247	13,912	7,974
Sandstone	1 cents per ton	8,928	9,244	9,642	19,019	15,128
Shale	1 cents per ton	27,752	20,451	20,631	19,574	8,306
Gypsum	1 cents per ton	-	-	-	229	-
Quartzite	1 cents per ton	2,155	2,012	3,464	2,487	943
Severance Tax Receipts Fund <sup>2</sup>						4,843,386
<b>Total</b>		<b>\$10,550,359</b>	<b>\$11,261,713</b>	<b>\$10,182,190</b>	<b>\$12,307,593</b>	<b>\$15,037,950</b>
Source: Office of Budget and Management accounting report (OH GL070 and Department of Taxation data)						
1 Excludes revenue from Oil and Natural Gas Regulatory Cost Recovery assessments. FY14 cost recovery assessments were \$1.9 million.						
2 Severance taxes are initially paid into a hold account and then subsequently allocated by using tax returns. This figure represents amounts remaining in the hold fund that will be subsequently transferred into the proper accounts/funds.						