

# ***Natural Resources Severance & Processing Tax***

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**Background** Effective June 1, 1980, the General Assembly levied a 4.5 percent tax on the gross value of all minerals severed in Kentucky, including natural gas and natural gas liquids. Coal and oil were specifically excluded due to taxation under other statutes. The legislation imposed no minimum rate of tax per unit as is the case with the coal severance tax.

In 1984, the General Assembly exempted fluorspar, lead, zinc, barite, and tar sands from the tax. In addition, taxpayers who sever or process limestone through the rip-rap, construction aggregate, or agricultural limestone stages, and who sell at least 60 percent of such stone in interstate commerce, are entitled to a tax credit.

KRS 42.450(2) and 42.470(2) require that one-half of the taxes collected on the sale of minerals, other than coal, be distributed among the mineral producing counties. In FY07 the total taxes of \$47.2 million represented 0.6 percent of total General Fund tax receipts.

**Current  
Rate  
Structure**

The natural resources severance and processing tax rate is 4.5 percent of the gross value. Effective in 1991, the tax on severing clay was limited to twelve cents per ton. Taxpayers who sever or process clay within the state, which is sold to and used as a component of landfill construction by an approved waste management or waste disposal facility in Kentucky, are entitled to a credit equal to the tax paid.

**Tax Base**

The base for this tax is gross value, the amount received or receivable from the sale of the mineral after it is processed and loaded for shipment. The base for natural gas and natural gas liquids is the sales price or market value in the immediate vicinity of the well. The amount of transportation expense incurred in transporting the natural resource to the customer is deductible in arriving at gross value.

When resources are purchased for processing, gross value is the amount received or receivable reduced by the amount paid for the natural resource and the transportation expense.

**Taxable Unit** The tax is levied on taxpayers engaged in the business of severing or processing natural resources in Kentucky, except that no tax is levied on the processing of ball clay.

**Tax Due** The tax must normally be reported and remitted on a monthly basis. The Revenue Cabinet may permit or require returns or tax payments for periods other than monthly. The tax return and payment are due on the last day of the month following the close of the tax period.

**Table 14. Total Natural Resources Severance and Processing Tax Expenditures**

FY 2008	FY 2009	FY 2010
\$6.5 million	\$6.7 million	\$6.9 million

**Tax Expenditures**

**1. Ball Clay, Fluorspar, Lead, Zinc, Tar Sands, Barite, and Stone Used for Privately Maintained but Publicly Dedicated Roads**

*Kentucky Revised Statute 143A.020 and 143A.030, effective 1980, 1984*

The severing or processing of these minerals, for any purpose, is exempt from the tax.

FY 2008	FY 2009	FY 2010
\$250,000	\$250,000	\$250,000

**2. Clay Used in Landfill Construction**

*Kentucky Revised Statute 143A.037, effective 1991*

A credit is allowed against the tax on clay severed or processed within this state and sold to and used as a component of landfill construction by an approved waste management or waste disposal facility within this state. The credit is equal to the tax.

FY 2008	FY 2009	FY 2010
\$0	\$0	\$0

### 3. Inactive Crude Oil and Natural Gas Wells

*Kentucky Revised Statute 143A.033, effective 1998*

A credit equal to 4.5 percent of the total tax is allowed for natural gas and oil produced from recovered inactive wells.

FY 2008	FY 2009	FY 2010
\$100,000	\$100,000	\$100,000

### 4. Limestone Sold in Interstate Commerce

*Kentucky Revised Statute 143A.035, effective 1984*

A credit is allowed equal to the tax on the gross value of limestone sold in interstate commerce. The credit extends only to those taxpayers who sever or process limestone through the rip-rap, construction aggregate, or agricultural limestone stages, and who sell at least 60 percent of such stone in interstate commerce.

FY 2008	FY 2009	FY 2010
\$3.1 million	\$3.2 million	\$3.3 million

### 5. Limestone Sold or Used for Agricultural Purposes

*Kentucky Revised Statute 143A.030, effective 1984*

Limestone sold or used for agricultural purposes is exempt if such sale or use qualifies for exemption from sales and use tax under KRS 139.480.

FY 2008	FY 2009	FY 2010
Minimal	Minimal	Minimal

## 6. Limit on Tax from Clay

*Kentucky Revised Statute 143A.037, effective 1991*

The tax on clay is limited to twelve cents per ton.

<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
Minimal	Minimal	Minimal

## 7. Transportation Expense

*Kentucky Revised Statute 143A.010(5) and (9), effective 1980*

Expenses incurred in transporting minerals are excluded from gross value.

<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
\$3.0 million	\$3.1 million	\$3.2 million