NORTH CAROLINA CENTER FOR
PUBLIC POLICY RESEARCH INC.

PRESS RELEASE

For Immediate Release: September 29, 1981

SEVERANCE TAXES IN U.S. REVIEWED

North Carolina would become the thirty-first state to assess a tax on mineral extraction if the General Assembly passes a severance tax, said the North Carolina Center for Public Policy Research this week. These findings were published in the latest issue of the Center's magazine, N.C. Insight.

A spokesperson for the Center stated "North Carolina will become a major mining state in two areas -- phosphate and peat. Because companies like Texasgulf Chemicals Company and the N.C. Phosphate Corporation will be extracting nonrenewable resources from the state in ever-increasing amounts, the legislature should seriously consider either a severance tax or removal of the state income tax depletion allowance for oil, gas, and mineral royalties."

The Hunt administration submitted proposals for these mining tax options on the next-to-last day of the January-July legislative session. Both can be considered in the October session that begins next Monday.

A severance tax is an excise levy on the privilege of extracting nonrenewable resources -- such as oil, gas, metals or timber -- from the ground. The depletion allowance repeal proposal would affect any corporation that extracts oil, gas, or minerals anywhere in the world but sells part of it in North Carolina. Those corporations pay state income taxes, and if eligible for a federal depletion allowance, also receive a state depletion allowance on what is sold in North Carolina. Thus, the depletion allowance acts as a device by which oil, gas, and mineral producers are exempt from paying the full tax that is standard for most corporations. Repeal of the allowance would increase corporate tax payments.

The N.C. Center reviewed the advantages and disadvantages of both tax proposals. They found that the severance tax would raise the most revenue but is opposed by Texasgulf Chemicals and by the N.C. Aggregates Association, a sand, gravel, and crushed stone trade association. The Hunt administration also seemed to favor the depletion allowance repeal approach in interviews.

The Center found that North Carolina already has a modest severance tax on timber. However, this tax is not even mentioned in the 14-page description of state and local taxes published by the Department of

P.O. BOX 430 336 FAYETTEVILLE STREET, ROOM 412 RALEIGH, N.C. 27602 (919) 832-2839

Revenue for out-of-state businesses. The tax produced $1.29 million in 1980.

North Carolina and Georgia also have on their tax books a kind of severance tax on oil and gas, in an effort to pay for administration of conservation laws. But since no oil or gas has ever been extracted in those states, these severance taxes are the only ones in the U.S. that produce no revenue.

Severance Taxes in the United States

State	Oil	Gas	Coal	Metals	Nonmetals Minerals	Other	Amount (1979) (in thousands of dollars)
AL	x	x	x	x	x	x	$ 22,281
AK	x	x				x	173,685
AR	x	x	x	x	x		12,502
CA	x[1]	x[1]					48,093
CO	x	x	x	x	x		19,803
FL	x	x		x	x		91,902
GA	x[1]	x[1]					—
ID	x	x		x	x		552
IN	x	x					673
KS	x	x					1,097
KY	x			x			154,017
LA	x	x	x	x	x		511,589
MI	x	x					13,724
MN				x			71,263
MS	x	x			x	x	32,922
MO						x	45
MT	x	x	x	x	x		53,919
NE	x	x					1,516
NV	x[1]	x[1]		x	x		54
NH	x						207
NM	x	x	x	x	x		159,431
NC	x[1]	x[1]				x	1,013
ND	x	x	x				25,503
OH	x	x	x		x		4,582
OK	x	x		x	x		280,982
OR						x	47,625
SD	x	x	x	x	x		884
TN	x	x	x				2,155
TX	x	x					1,025,550
UT	x	x		x			8,993
VA						x	1,003
WA						x	37,802
WI				x			362
WY	x	x	x	x	x		87,419

[1]Conservation purposes only. Since there is no oil or gas mined in Georgia there is no income.

Sources: Columns 1-6 are March, 1978 data, from Commerce Clearing House, Inc. *State Tax Guide: All States.* New York, Chicago and Washington, 1967 (with updated supplements to March 1978).

Column 7 is from U.S. Bureau of the Census, *State Tax Collections in 1979*, as reported in *The Book of the States 1980-81*, The Council of State Governments, 1980.