



STATE OF WEST VIRGINIA

Department of Revenue
State Tax Department

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Joe Manchin III
Governor

Christopher G. Morris
State Tax Commissioner



ADMINISTRATIVE NOTICE 2008-02

SUBJECT: Property Tax -- State Tax Commissioner's Statement for the Determination of Royalty Rates for Producing Coal and Other Natural Resources for Ad Valorem Property Tax Purposes for Tax Year 2008, Pursuant to §§110 CSR 1I-4.1.6 and 1K-4.1.6.

On September 4, 2007, the State Tax Department filed valuation variables to be used in conjunction with legislative regulations for the appraisal of natural resource properties. (See: §§ 110 CSR 1-H, 1-I, 1-J and 1-K) This notice will address one of the variables, royalty rate(s), setting forth the procedures used in developing the rate(s) for producing coal and other natural resources exclusive of oil and natural gas for Tax Year 2008.

DISCUSSION

In West Virginia, natural resources royalty rates are generally negotiated at a stated price per ton or as a percent of the selling price per ton of the resource produced. As most leases are negotiated as a percentage of selling price, it is necessary to obtain lease and sales information and to analyze this information in order to develop leasing and sales price patterns typical of the industry.

The Department's review of coal industry leasing patterns during the previous eight (8) years reveals that leases for surface mining operations (7.01%) are typically higher than for deep mining operations (5.84%). Review of sales prices reported in Coal Week, the Tax Year 2007 returns and other sources, further reveal a difference in typical selling prices of steam coal (\$39.00 per ton) and metallurgical coal (\$59.37 per ton).

Thus, royalty rates typically negotiated by the coal industry have been as follows:

Table with 6 columns: Resource Type, Price per ton, Multiplier (X), Percentage, and Resulting Royalty per ton. Rows include Steam Coal/Deep Mine, Metallurgical Coal/Deep Mine, Steam Coal/Surface Mine, and Metallurgical Coal/Surface Mine.

Similar research of royalty rates for other natural resources revealed the following:

Limestone/Deep	22¢ per ton
Limestone/Surface	22¢ per ton
Sandstone	45¢ per ton
Clay/Shale	11¢ per ton
Sand/Gravel	48¢ per ton
Salt	10¢ per ton

For more information concerning natural resource properties' royalty rate(s), contact the State Tax Department at (304) 558-3940.

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