

WEST VIRGINIA STATE TAX DEPARTMENT

Administrative Notice 2004-03

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 2004, Pursuant to §§110 CSR 11-4.1.6 and 1K-4.1.6.

On August 29, 2003, 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 2004.

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 (5.94%) are typically higher than for deep mining operations (5.04%). Review of sales prices reported in *Coal Outlook*, *Coal Week* and from Tax Year 2003 returns, further reveal a difference in typical selling prices of steam coal (\$26.91 per ton) and metallurgical coal (\$32.67 per ton).

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

Steam Coal/Deep Mine	\$26.91 per ton	X	5.04%	=	\$1.36 per ton
Metallurgical Coal/Deep Mine	\$32.67 per ton	X	5.04%	=	\$1.65 per ton
Steam Coal/Surface Mine	\$26.91 per ton	X	5.94%	=	\$1.60 per ton
Metallurgical Coal/Surface Mine	\$32.67 per ton	X	5.94%	=	\$1.94 per ton

Similar research of royalty rates for other mined minerals revealed the following:

Limestone/Deep	23¢ per ton
Limestone/Surface	23¢ per ton
Sandstone	58¢ per ton
Clay/Shale	11¢ per ton
Sand/Gravel	33¢ 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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