



## COAL SEVERANCE AND CONVERSION TAXES IN NORTH DAKOTA

### COAL SEVERANCE TAX

The coal severance tax is imposed on the act of removing coal from the earth. The tax is in lieu of both the sales and use taxes on coal and the property tax on minerals in the earth. The coal severance tax applies to all coal severed for sale or industrial purposes, except:

- Coal used for heating buildings in the state.
- Coal used by the state or any political subdivision of the state.
- Coal used in agricultural commodity processing facilities or to produce steam used in agricultural processing facilities in North Dakota or adjacent states.
- Coal purchased for improvement by coal beneficiation, which is subsequently used in, or to produce steam that is used in, agricultural commodity processing facilities in North Dakota or adjacent states or any facility owned by the state or a political subdivision of the state.

### Tax Rate

The tax is a flat rate of 37.5 cents per ton. An additional 2 cent per ton tax is levied for the Lignite Research Fund. A 50% reduction in the 37.5 cent tax is allowed for coal burned in a cogeneration facility designed to use renewable resources to generate 10% or more of its energy output. Counties may grant a partial or complete exemption from the counties' portion of the 37.5 cent tax (70% of the total severance tax) for coal that is shipped out of state. Payments of the tax are made monthly by the owner or operator of the mine.

### Revenue Distribution

Revenue from the 37.5 cent per ton severance tax is deposited in the Coal Development Fund and is distributed as follows:

- 30% to a permanent, constitutional trust fund administered by the Board of University and School Lands. The Coal Development Trust Fund is used to supply loans to school districts for school construction and loans to cities, counties and school districts impacted by coal development. Investment income from the Trust Fund is first used to replace uncollectible loans made from the fund, and the balance is deposited in the State General Fund. Seventy percent of the tax collected and deposited in the permanent Trust Fund must be transferred monthly to the Lignite Research Fund.
- 70% among the coal producing counties according to the amount of coal each county produces. Revenue allotted to each county is further apportioned as follows:
  - 40% to the county general fund.
  - 30% to the cities within the county according to population.
  - 30% to the school districts on the basis of average daily membership.
- A nonproducing county within 15 miles of a currently active coal mine, and a city or school district in that county and within 15 miles of the mine, are entitled to a share of the coal producing county's severance tax revenue from that particular mine. The amount of coal production on which a county has to share its severance tax revenue with another county during a calendar year is limited to 3.4 million tons.

## COAL CONVERSION TAX

The coal conversion facilities privilege tax is imposed on the operator of a coal conversion facility for the privilege of producing electricity or other products from coal. A coal conversion facility is defined as:

- An electrical generating plant which has at least one unit with a generating capacity of 10,000 kilowatts or more of electricity.
- A plant other than an electrical generating plant which processes or converts coal and uses or is designed to use over 500,000 tons of coal per year.
- A coal beneficiation plant.

The coal conversion tax is in lieu of property taxes on the plant itself, while the land on which the plant is located remains subject to property tax. The tax is paid monthly.

### Tax Rate

Electric generating plants are subject to two separate levies:

- .65 mill times 60% of installed capacity times the number of hours in the taxable period. Installed capacity means the rating shown on the nameplate assigned to the turbine of the power unit.
- .25 mill per kilowatt hour of electricity produced for sale.

Coal conversion plants other than electric generating plants include coal gasification plants, plants that convert coal to products other than gas, and coal beneficiation plants. A different rate of tax applies for each type of conversion facility. A coal gasification plant is subject to a monthly tax of 13.5 cents per thousand cubic feet of gas produced for sale or 4.1% of gross receipts, whichever is greater. Plants converting coal to products other than gas are taxed at 4.1% of gross receipts. The tax rate for a coal beneficiation plant is 20 cents per ton of beneficiated coal produced for sale or 1.25% of gross receipts, whichever is greater.

### Revenue Distribution

Revenue from the .25 mill levy on production of electric generating plants is deposited in the state general fund.

Revenue from the .65 mill levy on installed capacity of electric generating plants and all revenue from the tax on other coal conversion plants is distributed as follows:

- 85% to the State General Fund. Five percent of all funds allocated to the State General Fund must be allocated to the Lignite Research Fund through July 31, 2018.
- 15% to the county in which the plant is located. The amount distributed to each county is apportioned as follows:
  - 40% to the county general fund.
  - 30% to the cities within the county according to population.
  - 30% to school districts within the county on the basis of average daily membership.

### Exemptions

Exemptions to the coal conversion tax are as follows:

- Synthetic natural gas produced in excess of 110 million cubic feet per day.
- Income from byproducts of a coal gasification plant to a maximum of 20% of gross receipts.
- Revenue derived from the sale and transportation of carbon dioxide for use in the enhanced recovery of oil or natural gas.
- Beneficiated coal produced in excess of 80% of plant design capacity.

- A coal conversion facility that achieves a 20% capture of carbon dioxide emissions during a taxable period receives a 20% reduction in the State General Fund share of the coal conversion tax, and an additional reduction of one percent for every additional two percentage points of its capture of carbon dioxide emissions, up to 50% reduction for 80% or more capture. The reduction is available for ten years from the date of first capture or from the date the facility is eligible to receive the credit.
- A new or re-powered coal-burning electric generation plant is exempt from the State General Fund portion of both levies for five years. The county may grant an exemption for up to five years from the county's 15% share of the levy on installed capacity.
- All new coal conversion plants other than electric generation plants are exempt from the State General Fund portion (85%) of the tax for five years. The county may grant a partial or complete exemption from the county's 15% share for up to five years.

**TOTAL COAL SEVERANCE AND COAL CONVERSION TAX COLLECTIONS**  
BY FISCAL YEAR

Year	Coal Severance	Coal Conversion
FY 2015	\$ 11,293,806	\$ 27,253,229
FY 2014	11,233,707	24,937,582
FY 2013	10,986,898	24,905,909
FY 2012	11,001,918	25,430,529
FY 2011	11,254,271	23,118,634
FY 2010	11,506,451	26,154,150
FY 2009	12,096,832	29,543,292
FY 2008	11,585,819	27,461,267
FY 2007	11,969,504	28,930,510
FY 2006	12,014,618	27,784,633
FY 2005	11,458,156	26,264,860
FY 2004	12,450,642	28,106,144
FY 2003	12,202,063	27,246,539
FY 2002	12,850,893	25,349,890
FY 2001	23,095,487	16,443,620
FY 2000	23,572,353	15,387,068
FY 1999	23,582,059	14,692,468