OPPOSE HB 2198 (Kilgore)

Coal tax; limits aggregate amount of credits that may be allocated or claimed for employment, etc.

Overview

Ineffective tax credits expired on January 1, 2017. Given the findings of JLARC's report, *Review of the Effectiveness of Virginia Tax Preferences* study, we oppose the legislation to resurrect tax credits for coal companies.

Reasons to oppose HB 2198:

- Since the coal tax credits first started in 1988, the Commonwealth of Virginia has sent over $610,580,000 to coal companies in Southwest Virginia and electricity generators.
- The hundreds of millions of dollars provided through these coal tax credits go to corporations and other business entities in the coal industry, not the individual coal miners.
- When the coal tax credits first started in 1988, there were 11,106 coal miners in Virginia. As of DMME's preliminary estimates for 2015, there may now be as few as 2,800 coal miners in Virginia.
- As seen by the chart below, the coal industry and electricity generators claimed $37,300,000 in 2015 in coal tax credits, an increase of $9,150,000 from 2014. Contrarily, according to DMME estimates, there has been a decrease in Virginia of up to -900 coal miners from 3,703 in 2014 to 2,800, the current 2015 preliminary estimate.

FISCAL YEAR COAL CREDITS CLAIMED

	Coalfield Employment Enhancement Tax Credit (VA Code § 58.1-439.2)*		Virginia Coal Employment and Production Incentive Tax Credit (VA Code § 58.1-433.1)		Both Coal Credits
Fiscal Year	Number of Individual and Corporate Returns	Amount (in $ millions)	Number of Corporate Returns	Amount (in $ millions)	Total Amount (in $ Millions)
FY 2008	47	$35.1	< 4	$3.2	$38.3
FY 2009	59	$36.3	0	$0	$36.3
FY 2010	86	$44.1	< 4	$0.4	$44.5
FY 2011	50	$27.3	0	$0	$27.3
FY 2012	31	$25.0	0	$0	$25.0
FY 2013	37	$21.8	8	$59.4	$81.3
FY 2014	42	$21.5	< 4	$6.7	$28.2
FY 2015-Prelim**	49	$28.4	7	$8.9	$37.3

(*)The amount of Coalfield Employment Enhancement Tax Credit includes the amount refunded to taxpayers as well as that deposited to the Coalfields Economic Development Authority.
(**)FY 2015 numbers are preliminary and subject to change.
Source: Virginia Department of Taxation, Table 3.1 of the annual report

Sierra Club Virginia Chapter
Corrina Beall
Corrina.Beall@sierraclub.org | 804-687-8108
www.sierraclub.org/virginia

Virginia Conservation Network
Kristie Smith
Kristie@vcnva.org | 804-420-8288
www.vcnva.org

OPPOSE HB 2198 (Kilgore)

Coal tax; limits aggregate amount of credits that may be allocated or claimed for employment, etc.

Recent JLARC Study on Tax Preferences

In its recent study of tax preferences, JLARC found that Virginia's coal tax credits do not effectively promote coal production and employment in Virginia, despite their large fiscal impact.

See Figure 20 on Page 69 of the JLARC report which provides the following information:

> **"Coal production and employment have declined at the same or faster rates than was predicted if the Coalfield Employment Enhancement Tax Credit had not been enacted**…In the process of developing and refining the credit, analysts projected that coal employment and production would decline by 28 percent between 1996 and 2005 without the credit. However, actual mining employment was substantially lower than expected during this period, declining 36 percent. Production was slightly better than was projected without the credit, despite the fact that the credit was further modified to enhance its effectiveness."
>
> **"An analysis of the change in coal production and employment over time indicates that the State's coal tax credits may not have achieved their public policy goal of slowing the decline in coal mining activity and employment… It appears the credits may have promoted economic diversification in the region, but coal tax credits may not be the most effective mechanism for accomplishing this goal."**
>
> "According to coal industry experts and the research literature, coal production and employment are dependent primarily upon available coal reserves, production and transportation costs, and market prices. **Virginia faces unfavorable conditions in each of these areas, suggesting that tax credits are unlikely to meaningfully counteract these negative factors."** (Page 70)
>
> "Although the coal credits can significantly reduce tax liability for mine operators, **it does not appear to be sufficient to counteract the negative impact of other factors on Virginia coal production and employment, such as the high costs of production and transportation."** (Page 70)
>
> **"Virginia's production and transportation costs are higher than other nearby coal states, especially Kentucky and West Virginia**, making it challenging for in-state mine operators to compete in the steam coal market where competition is high and based largely on cost, not quality." (Page 70)

Sierra Club Virginia Chapter
Corrina Beall
Corrina.Beall@sierraclub.org | 804-687-8108
www.sierraclub.org/virginia

Virginia Conservation Network
Kristie Smith
Kristie@vcnva.org | 804-420-8288
www.vcnva.org