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Royalty owners want effects of severance tax increase examined more closely

Thursday, Feb 7, 2008

By Jason Wiest
Arkansas News Bureau

LITTLE ROCK - Increased state revenues from a proposed hike in the severance tax on natural gas would come partially from royalty owners' pockets, a group of mineral rights owners said Wednesday.

The National Association of Royalty Owners sent a letter Tuesday to Gov. Mike Beebe, state legislators and Sheffield Nelson, the former gas company executive who authored a proposed initiated act to raise the tax to 7 percent of the market value of natural gas, asking them to consider all the implications of raising the severance tax.

"Perhaps it is time to revise the Arkansas severance tax structure," the letter read. "All we ask is that our elected officials proceed with all stakeholders' interests in mind and assure the appropriate research has been conducted to determine the best solution for everyone."

The state's current severance tax on natural gas is three-tenths of one cent per 1,000 cubic feet of natural gas extracted. The tax has been unchanged since 1957 and is among the lowest in the nation.

Beebe was out of the Capitol on Wednesday, touring areas damaged by a band of deadly tornadoes that struck the state Tuesday night, and had not seen the letter, Beebe spokesman Matt DeCamp said.

Nelson did not immediately return a call seeking comment.

Gas company executives have said every dollar that goes to pay a higher severance tax would be a dollar not invested in exploration in the Fayetteville Shale play. Drilling activities in the northern Arkansas region is estimated to have a \$5.5 billion impact on the state economy by the end of the year.

Increasing the severance tax would proportionately reduce royalty payments to mineral owners who have leased their rights to gas companies extracting the gas, and also increase the

overall tax burden for mineral rights owners, who also pay property taxes on the gas, the group said.

"If you're going to tax these folks (more because of an increase in the severance tax), you need to turn around and consider doing away with property taxes on (the gas), because it's double taxation really," Dwight Brown, president of the Arkansas chapter of NARO, said Wednesday.

Oklahoma does not charge property taxes on mineral ownership. Nelson said he proposed 7 percent of market value to mirror what Oklahoma charges, although that state does allow some exemptions, which Nelson's proposal does not include.

Instead, Nelson has said, the Legislature could formulate those exemptions after the tax is increased.

NARO Executive Director Jerry Simmons said Nelson decision to base his proposal on Oklahoma's tax was a shortcut that might not benefit the state as well as a different proposal could.

"If the state of Arkansas believes it needs to raise its severance tax on gas, then they should investigate and put some thought and some study into it instead of saying that Oklahoma is 7 percent, 'Why don't we just go to 7 percent?' because Oklahoma is not 7 percent," Simmons said, referring to a number of exemptions in place in Oklahoma's tax structure.

The state Department of Finance and Administration is studying how other states formulate their severance taxes on natural gas at Beebe's request.

The governor would prefer to increase the tax legislatively with the support of gas companies, which he has urged to participate in the discussion about how an increase should be formulated.

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