West Virginia Treasury Analysis:
Importance of West Virginia Severance Tax

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Larry Pack, West Virginia State Treasurer

Introduction

Coal has shaped West Virginia's development and policies for centuries. The first reported coal mines date to the early 1810s, but the industry gained a stronger foothold a few decades later, spurred by the salt industry. Coal production expanded rapidly in 1883, when the first major rail line was completed in the state. As coal fueled American growth, workers' rights came to a crossroads during the famous Coal Mine Wars. The conflict led to major labor reforms in the 1920s, establishing a framework for many policies still in place today. Employment in the industry peaked in 1940 at more than 130,000, a year when production totaled 126.6 million tons. Annual production generally ranged between 110 million tons and 180 million tons per year from 1940 until around 2008, when federal policies and increasing competition from natural gas began to negatively affect West Virginia coal production trends.

Although coal has long dominated the state's history, severance taxes also apply to oil and gas production. These industries have grown steadily in West Virginia, particularly since the discovery of horizontal drilling technologies and the Marcellus Shale. Despite the challenges posed by the federal government's war on coal, shifting federal energy policies and increasing competition in the energy market, West Virginia's natural gas industry has experienced significant growth. Annual production increased from slightly less than 245 billion cubic feet in 2008 to nearly 3.6 trillion cubic feet in 2025, representing an average annual growth rate of more than 17%."As technology advances, so does the demand for energy, underscoring the continued importance of coal, natural gas, and oil.

In recent years, policymakers have continued to support the state's growing energy industry while also pursuing efforts to diversify West Virginia's economy and reduce its reliance on severance tax revenue. Despite these efforts, severance taxes remain a cornerstone of the state budget.

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By the Numbers

Nationally, the mining sector accounts for just 1.4% of gross domestic product (GDP). But in West Virginia, mining accounts for a much larger 13.4% of GDP. Major products produced in West Virginia include steam coal, metallurgical coal, natural gas, natural gas liquids, and oil. During the 20th century, coal was the predominate mineral produced in West Virginia. However, technological innovations led to a recent boom in Marcellus shale natural gas production in the state. The natural gas and oil share of total West Virginia mining output rose from roughly 8% in 1999 to more than 38% by 2024. West Virginia remains the second-largest coal-producing state in the country, with current annual production around 80 million tons, or 16% of the nation's total. At the same time, West Virginia is now the fifth largest natural gas-producing state in the country, with current annual production of nearly 3.6 trillion cubic feet, or more than 8% of the nation's total.

The West Virginia University Bureau of Business and Economic Research published a 2026 study on the economic impact of both the coal industry and coal-fired power generation industry in West Virginia. The study indicated that coal mining supported $16.4 billion of economic activity in the state and coal-fired generation supported an additional $4.6 billion of economic impact. The Gas and Oil Association of West Virginia recently reported that the natural gas and oil industry supported $14.7 billion of economic activity in West Virginia.



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Severance Tax

The mining industry generates significant amounts of tax revenue for West Virginia and its local governments, mainly through severance taxes, property taxes, and income taxes. The severance tax, a tax on mining gross receipts, is also a major source of State General Revenue. Property taxes on mining-related activities are a major source of funding for county governments and local county schools in the state.

Severance Tax is the third largest source of General Revenue Funds for West Virginia, with an average total share of 9% over the past 25 years. The two largest sources of General Revenue are the Personal Income Tax and the Consumer Sales and Service Tax. Between Fiscal Year 2001 and Fiscal Year 2026, General Revenue Fund Severance Tax collections rose from $163.2 million to $534.9 million, an average annual growth rate of nearly 4.9%. Total General Revenue Fund collections rose from nearly $2.72 billion in Fiscal Year 2001 to more than $5.69 billion in Fiscal Year 2026, an average annual growth rate of 3.0%. Absent the Severance Tax, the average annual growth rate for the General Revenue Fund over the past 25 years falls to 2.85%. The share of total Severance Tax collections attributable to the natural gas and oil industry rose from 20% in Fiscal Year 2004 to more than 68% in Fiscal Year 2026. Total natural gas severance tax collections rose by 889%, while total coal severance tax collections rose by 4.7% between Fiscal Year 2004 and Fiscal Year 2026.

History of Reliance

Major tax cuts in West Virginia usually occur during periods when Severance Tax revenues are on rapid rise toward near peak levels. The phase-outs of the sales tax on groceries and the business franchise tax began after the Severance Tax rose from $184.4 million in Fiscal Year 2004 to $314.7 million in Fiscal Year 2006 and then to a peak of $467.9 million by Fiscal Year 2012. The largest Personal Income Tax rate reduction package enacted in 2023 occurred after Severance Tax collections rose from a trough of $267.0 million in Fiscal Year 2020 to a peak of $946.5 million in Fiscal Year 2023. The Severance Tax remains a factor in current decisions to further lower Personal Income Tax rates. Plans to expand West Virginia's electric power generation capacity to meet growing regional electricity demand also support additional mining activity and future Severance Tax revenues for the state.

Local Impact

A portion of Severance Tax collections are dedicated to local governments in West Virginia. In Fiscal Year 2026, local county and municipal governments received nearly $51.5 million in various severance tax distributions from coal, natural gas, and oil severance tax. Producing counties received more than 75% of these funds for county commission uses. Remaining funds were distributed to all county commissions and municipal governments based on population share.

The local property tax represents the mining industry's biggest tax payments to local governments with significant annual variation in revenues associated with movements in energy prices. Counties with the largest per capita property tax revenues are major natural resource producing counties. In Fiscal Year 2027, the projected statewide gross yield from the uniform regular levy school tax rates is slightly more than $425 per capita using the 2020 Census population data. The top three natural gas producing counties are also the top three counties in per capita property regular school tax revenues [i.e., Tyler ($2,127), Wetzel ($1,793), and Doddridge ($1,345)]. The top coal producing county in the state, Marshall County, ranks fifth highest at $964 per capita. Counties with major electric power generation facilities and counties with portions of major interstate natural gas pipelines also tend to have higher than average per capita property tax collections. In Fiscal Year 2027, the Webster County regular school levy gross yield is projected to be $424, a 77% increase from the prior year. The increase is due to the first year of full taxation of a recently completed interstate gas pipeline passing through the county.

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Conclusion

The mining industry has and continues to play an important role in the West Virginia economy and in the generation of tax revenues in support of state and local government finances. The severance tax is a key source for state finances, and both the Severance Tax and local property tax contributions by the mining industry are important sources of local government finances in West Virginia.

West Virginia's reliance on severance tax revenue to support state and local government budgets presents an ongoing challenge for policymakers. While continued investment in the state's energy industries can strengthen the economy and generate additional revenue, policymakers must also balance economic development with the protection of property rights and natural resources. As the state pursues additional tax relief, including potential reductions to the state income tax, it's important to recognize that severance tax collections can fluctuate significantly with changes in energy prices and production.

Looking ahead, the state must continue supporting coal, natural gas, and oil industries while encouraging new investment and economic diversification. Responsible budgeting and a balanced approach to economic development will help ensure the state can maintain essential services, withstand fluctuations in energy markets, and pursue meaningful tax relief without relying too heavily on any single revenue source. By doing so, West Virginia can build on its natural resource strengths while creating a more stable and prosperous future for generations to come.



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