

INHERITANCE TAX BULLETIN 2012-01

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Taxation and Valuation of Mineral Rights and Natural Gas Interests for Pennsylvania Inheritance Tax

Under provisions of the Inheritance and Estate Tax Act of 1991, (72 P.S. §§ 9102, 9121), the Secretary of the Department of Revenue ("Department") announces that the Department has clarified existing Department policy concerning the taxation of mineral rights and natural gas interests for Pennsylvania inheritance tax purposes. All mineral and natural gas rights shall be reported on *Inheritance Tax Schedule E (REV-1508)* as Cash, Bank Deposits & Misc. Personal Property. The Department clarifies its policy as follows:

- (1) The **taxable value of mineral rights** shall be determined using the same methodology used to value any real property or tangible personal property interest. Taxable value is established by determining the actual monetary worth of the interest determined by either a *bona fide* sale or, if the transfer is for no or nominal consideration, computed value (based on the common-level ratio applied to the assessed value of the mineral right). In the event that there is no sale and no computed value, then the taxable value is the interest's actual monetary worth, based upon the best available evidence.
- (2) The **taxable value of natural gas rights** shall be determined using the same methodology used to value any real property or tangible personal property interest. Taxable value is most clearly established by determining the actual monetary worth of the interest determined by a *bona fide* sale. If there is no *bona fide* sale, natural gas rights can be determined from an appraisal or other credible evidence. A computed value using assessed value cannot be accomplished because natural gas rights do not have assessed values. Therefore, **absent a bona fide sale, an appraisal or other credible evidence to the contrary**, value shall be determined as follows:
 - (i) **For leased and producing properties**, an estate shall value natural gas rights at an amount equal to any amounts received that were attributable to actual production of the natural gas interests at issue during the twelve months prior to the decedent's date of death, multiplied by two.
 - (ii) **For leased, non-producing properties**, interests shall be reported at a value of zero unless, at the time of death, the properties were part of a contractual arrangement whereby the properties generated fixed future payments, in which case the

natural gas rights shall be calculated by reducing the fixed future payments to present value as of the decedent's date of death using established Internal Revenue Service actuarial tables as found in *IRS Publication 1457 Actuarial Values* Table B, Section 3 Annuity, Income, and Remainder Interests For a Term Certain.

- (iii) **For non-leased, non-producing properties**, interests shall be reported at a value of zero.

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