THE STATE of ALASKA

GOVERNOR BILL WALKER

Department of Revenue

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February 29, 2016

The Honorable Dave Talerico and the Honorable Benjamin Nageak
Alaska State Representatives
Co-Chairs, House Resources Committee
State Capitol Rooms 104 and 126
Juneau, AK 99801

Dear Co-Chairs Talerico and Nageak:

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue and the Department of Commerce, Community, and Economic Development during our presentation to the House Resources Committee on February 15, 2016. Please see questions in italics and our responses immediately below the questions.

1. *Can DOR provide a multi-state comparison of the total government take from the mining industry?*

A comprehensive analysis of all taxes that affect the mining industry, including local property taxes and other taxes in all states, would be a large research project taking significant time for DOR and would delay our response to the committee. However, we have attached some resources that give a sense for how different states and Canadian provinces treat both the mining industry and other industries:

- A list of state severance taxes as of 2015
- A list of state corporate income tax rates as of 2015
- A presentation that analyzes mining tax regimes in all Canadian provinces as of 2009
- A document summarizing Nevada's Net Proceeds of Mineral Tax

The Department of Revenue does, of course, have more information on government take within Alaska. We refer the committee to a letter dated Feb. 15, 2016, addressed to the Senate Resources Committee but also provided to the House Resources Committee, which details the local property taxes that Alaska's large mines pay, in addition to the amounts of Mining License Tax and Corporate Income Tax that the mining industry pays to the state.

It should be noted that royalties are a payment to ownership and not properly considered "government take." Further, in testimony to the committee on February 24th by the Alaska Miners Association and the Council of Alaska Producers, on slide 16 state revenue from mining improperly includes repayment of bonded indebtedness to AIDEA at $12 million and royalties of $15 million, along with state material sales which include gravel and other materials that are a simple purchase of a needed supply that happens to be sold by the state. These are specific payments for specific items, not general revenue.

2. *Would deferring the Mining License Tax for the first three years of production, instead of a tax exemption, alleviate concerns about incentives at the beginning of a mine's life but still capture the extra revenue?*

If the Mining License Tax were deferred for the first three years, each mining operation's tax liability would actually increase for later years, so the overall effect of the tax on their profits would be the same. It is certainly possible that deferring the taxes would provide financial relief for the mining company. Of course, the opposite could also be true if the company happened to hit hard financial times right after the deferral period ended.

As noted in a previous response to this committee, most large Alaska mines have reached their full production level within a year or two of commencing operations. It does not take them many years to ramp up their production.

3. *What are the implications of having a business license, other than the fee? Are these different from the implications of a mining license?*

The public purpose for requiring a business license prior to engaging in business activity is to help protect the health and safety of the public. A business license provides the name of the owner and contact information of the business. This information identifies who is legally responsible for the business and its activities. A business license provides the primary and secondary lines of business and NAICS codes for the business activities. If the business activity is subject to provisions of a regulatory nature (i.e. professional licensing, entity registration, bond, etc.) then these must be met prior to obtaining a business license. To sell tobacco products a business must obtain a Tobacco Endorsement on their business license.

The few exemptions (AS 43.70.105) to business licensing, such as mining, are because they register with another agency; however if these exemptions engage in any other activity that is not covered by registering the licensing agency then they must obtain a business license. For example: the sale of liquor under AS 04.11 is exempt from a business license; however if they sell anything that is not specifically liquor under AS 04.11 (i.e. soda, mixes, tobacco, food, etc.) then they must obtain a business license.

The following table provides a basic comparison of key requirements regarding business licenses and mining licenses.

BASIC COMPARISON: MINING & BUSINESS LICENSES	**Department of Commerce, Community & Economic Development**	**Department of Revenue**
	Business Licensing	**Mining Licensing**
Cost of license	$50 annually or $25 for seniors	Free
Due dates	Due annually on December 31	Due annually on April 30
Who needs a license	Anyone doing business in the state that does not meet the exemptions under AS 43.70.105(a).	Any persons prosecuting or attempting to prosecute, or engaging in the business of mining in the state needs a license, unless they are not in the business of mining as defined under 15 AAC 65.010(a)(1)-(5).
Penalty for being unlicensed	$300 civil fine	Misdemeanor up to $2,000 fine, up to 6 months in jail, or both
What information is needed	Name, address, type of business, dates of license, business name	Name, address, EIN or SSN, location of mining operation, dates of license, date production began
Active license	Must have license in place before doing business	Must have license in place before doing mining business
Exemptions	The exemptions include business types such as fisheries business, liquor license through the ABC Board, insurance business, and mining	No exemptions. Any person considered engaged in mining activities under 15 AAC 65.010(b)(1)-(3) must obtain a mining license

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

Randall Hoffbeck
Commissioner

Attachments: State severance taxes; State corporate income tax rates; Canadian Mining Taxation – 2009; Nevada mining tax summary

Table 7.15
STATE SEVERANCE TAXES: 2015

State	Title and application of tax (a)	Rate
Alabama	Iron Ore Mining Tax	$.03/ton.
	Forest Products Severance Tax	Varies by species and ultimate use.
	Oil and Gas Conservation & Regulation of Production Tax	2% of gross value at point of production, of all oil and gas produced. 1% of the gross value (for a 5-year period from the date production begins) for well, for which the initial permit issued by the Oil and Gas Board is dated on or after July 1, 1996 and before July 1, 2002, except a replacement well for which the initial permit was dated before July 1, 1996; 1.66% gross proceeds from offshore production greater than 8,000 ft. below sea level.
	Oil and Gas Privilege Tax on Production	8% of gross value at point of production; 4% of gross value at point of incremental production resulting from a qualified enhanced recovery project; 4% if wells produce 25 bbl. or less oil per day or 200,000 cu. ft. or less gas per day; 6% of gross value at point of production for certain on-shore and off-shore wells. A 50% rate reduction for wells permitted by the oil and gas board on or after July 1, 1996, and before July 1, 2002, for 5 years from initial production, except for replacement wells for which the initial permit was dated before July 1, 1996; 3.65% gross proceeds from offshore production greater than 8,000 ft. below sea level;
	Coal and Lignite Severance Tax	$.20/ton in addition to coal severance tax. In 2012, state legislature extended through 2021.
	Local Solid Minerals Tax	Varies by county for sand, clay, gravel, granite, shale, and other products.
Alaska	Uniform Natural Minerals Tax	$.10/ton.
	Cost Recovery Fisheries Assessment (b)	Elective; currently no assessments in place.
	Dive Fishery Management Assessment (b)	Elective; currently 7% of value for select dive fishery species in select management regions.
	Fisheries Business Tax	Tax based on unprocessed value of fishery resources processed in or exported from the state. 1% of value for shore-based processing in developing fisheries; 3% of value for floating processing in developing fisheries or shore-based processing in established fisheries; 4.5% of value for salmon cannery processing in established fisheries; 5% of value for floating processing in established fisheries.
	Fishery Resource Landing Tax	Tax based on unprocessed value of fishery resources processed outside and first landed in the state. 1% of value for developing fisheries; 3% of value for established fisheries.
	Mining License Tax	Up to 7% of net income and royalties received in connection with mining properties and activities in Alaska. New mining operations other than sand and gravel exempt for 3 ½ years after production begins.
	Alaska Oil Production Tax	Alaska will impose a base rate of 35 percent on oil companies' net profits in the state, replacing a 25 percent base rate that increased by 0.4 percentage points for every $1 above a net wellhead price of $30.
	Salmon Enhancement Tax (b)	Elective; 2% or 3% of value for salmon sold in or exported from select aquaculture regions.
	Seafood Development Tax (b)	Elective; currently 1% of value for select commercial fish species in select seafood development regions.
	Seafood Marketing Assessment (b)	Elective; currently 0.5% of value for all commercial fish species exported from, landed or processed in-state.
Arizona	Severance Tax	2.5% of net severance base for mining (metalliferous minerals); $1.51/1,000 board ft. ($2.13 for ponderosa pine) for timbering. 3.125% for oil and gas production and nonmetal mining.
Arkansas	Natural Resources Severance Tax	Separate rate for each substance. Timber $0.178/ton (pine), all other $0.125/ton.
	Oil and Gas Conservation Tax	Natural gas 1.25%, 1.5%, and 5% depending on well classification; crude oil 4% to 5% depending on production levels.
	Oil and Gas Conservation Assessment	Maximum 43 mills/bbl. of oil and 9 mills per MCF produced of gas.
California	Oil and Gas Production Assessment	Rate determined annually by Department of Conservation to fund agency operations; no state severance tax.
	Lumber Tax	The Lumber Tax was enacted in Sept. 2012. Retailers are required to impose a 1% tax on lumber sold in California.
Colorado	Severance Tax (c)	Taxable years commencing prior to July 1, 1999, 2.25% of gross income exceeding $11 million for metallic minerals and taxable years commencing after July 1,1999, 2.25% of gross income exceeding $19 million for metallic minerals; on or after July 1,1999, $.05/ton for each ton exceeding 625,000 tons each quarter for molybdenum ore; 2% to 5% based on gross income for oil, gas, CO_2, and coalbed methane; after July 1,1999, $.36/ton adjusted by the producers' prices index for each ton exceeding 300,000 tons each quarter for coal; and 4% of gross proceeds on production exceeding 15,000 tons per day for oil shale.
	Oil and Gas Conservation Levy (d)	0.07% charge on all oil, natural gas, and CO_2 produced.

See footnotes at end of table.

STATE SEVERANCE TAXES: 2015—Continued

State	Title and application of tax (a)	Rate
Florida	Oil, Gas and Sulfur Production Tax	5% of gross value for small well oil, and 8% of gross value for all other, and an additional 12.5% for escaped oil; tiered formula for tertiary oil; the gas base rate ($0.171) times the gas base adjustment rate each fiscal year for gas; and the sulfur base rate ($2.43) times the sulfur base rate adjustment each fiscal year for sulfur.
	Solid Minerals Tax (e)	8% of the value of the minerals severed; heavy minerals (rate computed annually at $1.34/ton plus times the surchage rate currently at 2.57) and phosphate rock (rate computed annually at a base rate of $1.61/ton plus $1.38 surcharge adjustment).
Idaho	Mine License Tax	1% of net value.
	Oil and Gas Production Tax	Maximum of 5 mills/bbl. of oil and 5 mills/50,000 cu. ft. of gas. Current conservation rate is 5 mills (.005).
	Additional Oil and Gas Production Tax	2.5% of market value at site of production.
Illinois	Oil and Gas Production Assessment (f)	0.1% fee per well of gross revenue for oil and natural gas.
	Timber Fee	4% of purchase price. (g)
Indiana	Petroleum Severance Tax (h)	1% of value or $.24 per barrel for oil or $.03 per 1,000 cu. ft. of gas, whichever is greater.
Kansas	Severance Tax (i)	8% of gross value of oil and gas, less property tax credit of 3.67%; $1/ton of coal.
	Oil Inspection Fee/barrel (i)	$0.015/barrel.
	Oil and Gas Conservation Tax	91.00 mills/bbl. crude oil or petroleum marketed or used each month; 12.9 mills/1,000 cu. ft. of gas sold or marketed each month.
	Mined-Land Conservation & Reclamation Tax	$50, plus per ton fee of between $.03 and $.10.
Kentucky	Oil Production Tax	4.5% of market value.
	Coal Severance Tax	4.5% of gross value, less transportation expenses; $0.50/ton minimum for extraction and processing.
	Natural Resource Severance Tax	4.5% of gross value, less transportation expenses.
Louisiana	Natural Gas Severance Tax (j)	The natural gas severance tax rate effective July 1, 2014 through June 30, 2015 has been set at 16.3 cents per thousand cubic feet (MCF) measured at a base pressure of 15.025 pounds per square inch absolute and at the temperature base of 60 degrees Fahrenheit. This tax rate is set each year by multiplying the natural gas severance tax base rate of 7 cents per MCF by the "gas base rate adjustment" determined by the Secretary of the Department of Natural Resources in accordance with R.S. 47:633(9)(d)(i). The "gas base rate adjustment" is a fraction, of which the numerator is the average of the New York Mercantile Exchange (NYMEX) Henry Hub settled price on the last trading day for the month, as reported in *The Wall Street Journal* for the previous 12-month period ending on March 31, and the denominator is the average of the monthly average spot market prices of gas fuels delivered into the pipelines in Louisiana as reported by the Natural Gas Clearing House for the 12-month period ending March 31, 1990 (1.7446 $/MMBTU). Based on this computation, the Secretary of the Department of Natural Resources has determined the natural gas severance "gas base rate adjustment" for April 1, 2013, through March 31, 2014, to be 232.34 percent. Applying this gas base rate adjustment to the base tax rate of 7 cents per MCF produces a tax rate of 16.3 cents per MCF effective July 1, 2014, through June 30, 2015. The reduced natural gas severance tax rates provided for in R.S. 47:633(9)(b) and (c) remain the same.
	Oil/Condensate Severance Tax (j)	Value on a per barrel basis (42 gallons) the rates are: full-rate, 12.5%; incapable oil rate, 6.25%; stripper oil rate, 3.25%; reclaimed oil, 3.25%; produced water full-rate, 10%; produced water incapable oil rate, 5.0%; produced water stripper oil rate, 2.5%.
	Timber Severance Tax (j)	Louisiana Revised Statute 47:633 imposes a severance tax on timber and pulpwood based on the trees and timber 2.25% of current stumpage value determined by state commission; pulpwood 5% of current stumpage value; current average stumpage market value determined annually on the second Monday of December by the Louisiana Forestry Commission Effective for 2015, the timber values to be used to determine the severance tax on timber are as follows: Pine Sawtimber, Value Per Ton $31.68, Tax Rate 2.25%, Tax Per Ton $0.71; Hardwood Sawtimber, Value Per Ton $35, Tax Rate 2.25%, Tax Per Ton $0.79; Pine Chip-n-Saw, Value Per Ton $16.50, Tax Rate 2.25%, Tax Per Ton $0.37; Pulpwood Pine, Value Per Ton $8.76, Tax Rate 5.00%, Tax Per Ton $0.44; Pulpwood Hardwood, Value Per Ton $10.50, Tax Rate 5.00%, Tax Per Ton $0.53.
	Mineral Severance Tax (j)	Various fees on a per ton basis for products like sulphur, salt, marble, stone, sand, lignit, and others.
	Oil Field Site Restoration Fee	Rate varies according to type of well and production.
	Freshwater Mussel Tax	5% of revenues from the sale of whole freshwater mussels, at the point of first sale.

See footnotes at end of table.

STATE SEVERANCE TAXES: 2015—Continued

State	*Title and application of tax (a)*	*Rate*
Maine	Mining Excise Tax	The greater of a tax on facilities and equipment or a tax on gross proceeds.
Maryland	Mine Reclamation Surcharge	$.15/ton of coal removed by open-pit, strip or deep mine methods. Of the $.15, $.06 is remitted to the county from which the coal was removed.
Michigan	Gas and Oil Severance Tax	5% (gas), 6.6% (oil) and 4% (oil from stripper wells and marginal properties) of gross cash market value of the total production. Maximum additional fee of 0.82% of gross cash market value on all oil and gas (2015 fee).
Minnesota	Taconite and Iron Sulfides	$2.56 per ton of concentrates or pellets (rate indexed to inflation by law).
	Direct Reduced Iron (k)	$2.56 per ton of concentrates plus an additional $.03 per ton for each 1% that the iron content exceeds 72%.
Mississippi	Oil and Gas Severance Tax	6% of value at point of gas production; 3% of gross value of occluded natural gas from coal seams at point of production for well's first five years; also, maximum 35 mills/bbl. oil or 4 mills/1,000 cu. ft. gas (Oil and Gas Board maintenance tax). 6% of value at point of oil production; 3% of value at production when enhanced oil recovery method used.
	Timber Severance Tax	Varies depending on type of wood and ultimate use.
	Salt Severance Tax	3% of value of entire production in state.
Montana	Coal Severance Tax	Varies from 3% to 15% depending on quality of coal and type of mine.
	Metalliferous Mines License Tax (l)	Progressive rate, taxed on amounts in excess of $250,000. For concentrate shipped to smelter, mill or reduction work, 1.81%. Gold, silver or any platinum group metal shipped to refinery, 1.6%.
	Oil or Gas Conservation Tax	Maximum 0.3% on the market value of each barrel of crude petroleum oil or 10,000 cu. ft. of natural gas produced, saved and marketed or stored within or exported from the state. (m)
	Oil and Natural Gas Production Tax	Varies from 0.5% to 14.8% according to the type of well and type of production.
	Miscellaneous Minerals License Tax	$.05/ton.
	Cement License Tax (n)	$.22/ton of cement, $.05/ton of cement, plaster, gypsum or gypsum products.
	Resource Indemnity Trust Tax	$25 plus 0.5% of gross value greater than $5,000. For talc, $25 plus 4% of gross value greater than $625. For coal, $25 plus 0.40% of gross value greater than $6,250. For vermiculite, $25 plus 2% of gross value greater than $1,250. For limestone, $25 plus 10% of gross value greater than $250. For industrial garnets, $25 plus 1% of gross value greater than $2,500.00.
Nebraska	Oil and Gas Severance Tax	3% of value of nonstripper oil and natural gas; 2% of value of stripper oil.
	Oil and Gas Conservation Tax	Two percent of value of stripper oil. Maximum 15 mills/$1 of value at wellhead, as of January 1, 2000. (f)
	Uranium Tax	2% of gross value over $5 million. The value of the uranium severed subject to tax is the gross value less transportation and processing costs.
Nevada	Minerals Extraction Tax	Between 2% and 5% of net proceeds of each geographically separate extractive operation, based on ratio of net proceeds to gross proceeds of whole operation.
	Oil and Gas Conservation Tax	$50/mills/bbl. of oil and 50 mills/50,000 cu. ft. of gas.
New Hampshire	Refined Petroleum Products Tax	0.1% of fair market value.
	Excavation Tax	$.02 per cubic yard of earth excavated.
	Timber Tax	10% of stumpage value at the time of cutting. Not assessed under the general property tax but rather is taxed by municipalities.
New Mexico	Resources Excise Tax (o)	Potash .5%, molybdenum .125%, all others .75% of value.
	Severance Tax (o)	Copper .5%, timber .125% of value. Pumice, gypsum, sand, gravel, clay, fluorspar and other non-metallic minerals, .125% of value. Gold, silver .20%; Lead, zinc, thorium, molybdenum, manganese, rare earth and other .125% of value.
	Oil and Gas Severance Tax	3.75% of value of oil, other liquid hydrocarbons, natural gas and carbon dioxide.
	Oil and Gas Emergency School Tax	3.15% of value of oil, other liquid hydrocarbons and carbon dioxide. 4% of value of natural gas.
	Natural Gas Processor's Tax	$0.0220/Mmbtu tax on volume.
	Oil and Gas Ad Valorem Production Tax	Varies, based on property tax in district of production.
	Oil and Gas Conservation Tax (p)	0.19% of value.
North Carolina	Oil and Gas Conservation Tax	Maximum 5 mills/barrel of oil and 0.5 mill/1,000 cu. ft. of gas.
	Primary Forest Product Assessment Tax	$.50/1,000 board ft. for softwood sawtimber, $.40/1,000 board ft. for hardwood sawtimber, $.20/cord for softwood pulpwood, $.12/cord hardwood pulpwood.

See footnotes at end of table.

STATE SEVERANCE TAXES: 2015—Continued

State	Title and application of tax (a)	Rate
North Dakota	Oil Gross Production Tax	5% of gross value at well.
	Gas Gross Production Tax	$.04/1,000 cu.ft. of gas produced (the rate is subject to a gas rate adjustment each fiscal year). Through June 30, 2013, the rate was $.0982 per mcf.
	Coal Severance Tax	$.375/ton plus $.02/ton. (q)
	Oil Extraction Tax	6.5% of gross value at well (with exceptions due to production volumes and and production incentives for enhanced recovery projects).
Ohio	Resource Severance Tax	$.10/bbl. of oil; $.025/1,000 cu. ft. of natural gas; $.04/ton of salt; $.02/ ton of sand, gravel, limestone and dolomite; $.10/ton of coal; and $0.01/ ton of clay, sandstone or conglomerate, shale, gypsum or quartzite.
Oklahoma	Oil, Gas and Mineral Gross Production Tax and Petroleum Excise Tax (r)	Rate: 0.75% levied on asphalt and metals. 7% (if greater than $2.10 mcf) 4% (if greater than $1.75 mcf, but less than $2.10 mcf) 1% (if less than $1.75 mcf) casinghead gas and natural gas as well as 0.95% being levied on crude oil, casinghead gas and natural gas. Oil Gross Production Tax is now a variable rate tax, beginning with January 1999 production, at the following rates based on the average price of Oklahoma oil: a) If the average price equals or exceeds $17/bbl, the tax shall be 7%; b) If the average price is less than $17/bbl, but is equal to or exceeds $14/bbl, the tax shall be 4%; c) If the average price is less than $14/bbl, the tax shall be 1%.
Oregon	Forest Products Harvest Tax	$3.5316/1,000 board ft. harvested from public and private land—through Dec. 31, 2013.
	Oil and Gas Production Tax	6% of gross value at well.
	STF Severance Tax— Eastern Oregon Forestland Option	$4.03/1,000 board ft. harvested from land under the Small Tract Forestland Option—through Dec. 31, 2015.
	STF Severance Tax— Western Oregon Forestland Option	$5.18/1,000 board ft. harvested from land under the Small Tract Forestland Option—through Dec. 31, 2015.
Pennsylvania	Natural Gas Severance Tax	Annual $50,000 per-well fee. Local fees and taxes determined by county.
South Carolina	Forest Renewal Tax	Softwood products: 50 cents per 1,000 board feet or 20 cents per cord. Hardwood products: 25 cents per 1,000 board feet or 7 cents per cord.
South Dakota	Precious Metals Severance Tax	$4 per ounce of gold severed plus additional tax depending on price of gold; 10% on net profits or royalties from sale of precious metals, and 8% of royalty value.
	Energy Minerals Severance Tax (s)	4.5% of taxable value of any energy minerals.
	Conservation Tax	2.4 mills of taxable value of any energy minerals.
Tennessee	Oil and Gas Severance Tax	3% of sales price.
	Coal Severance Tax (t)	$1.00/ton (effective 7/17/13).
	Mineral Tax	Up to $0.15 per ton, rate set by county legislative body.
Texas	Natural Gas Production Tax	7.5% of market value of gas. Condensate Production Tax: 4.6% of market value of gas.
	Crude Oil Production Tax	4.6% of market value or $.046/bbl.
	Sulphur Production Tax	$1.03/long ton or fraction thereof.
	Cement Production Tax	$0.55 per ton or $.0275/100 lbs. or fraction of 100 pounds of taxable cement.
	Oil-Field Cleanup Regulatory Fees	5/8 of $.01/barrel; 1/15 of $.01/1,000 cubic feet of gas. (u)
	Oyster Sales Fee	$1 per 300 lb. barrel of oysters taken from Texas waters.
Utah	Mining Severance Tax	2.6% of taxable value for metals or metalliferous minerals sold or otherwise disposed of.
	Oil and Gas Severance Tax	3% of value for the first $13 per barrel of oil, 5% from $13.01 and above; 3% of value for first $1.50/mcf, 5% from $1.51 and above; and 4% of taxable value of natural gas liquids.
	Oil and Gas Conservation Fee	.002% of market value at wellhead.
Virginia	Forest Products Tax	$1.15 per 1,000 feet B.M. of pine lumber and 1,000 board feet of pine logs. $0.475 collected per cord of pine pulpwood.
	Coal Surface Mining Reclamation Tax	Varies depending on balance of Coal Surface Mining Reclamation Fund.
Washington	Uranium and Thorium Milling Tax (tax reported as inactive)	$0.05/per pound.
	Enhanced Food Fish Tax	0.09% to 5.62% of value (depending on species) at point of landing.
	Timber Excise Tax	5% of stumpage value for harvests on public and private lands.

See footnotes at end of table.

STATE SEVERANCE TAXES: 2015—Continued

State	Title and application of tax (a)	Rate
West Virginia	Natural Resource Severance Taxes	Coal: State rate is greater of 5% or $.75 per ton (4.65% for state purposes and .35% for distribution to local governments). Special state rates for coal from new low seam mines. For seams between 37" and 45" the rate is greater of 2% or $.75/ton (1.65% for state purposes and .35% for distribution to local governments). For seams less than 37" the rate is greater of 1% or $.75/ton (.65% for state purposes and .35% for distribution to local governments). For coal from gob, refuse piles, or other sources of waste coal, the rate is 2.5% (distributed to local governments). Additional tax for workers' compensation debt reduction is $.56/ton. Two special reclamation taxes at $.07/clean ton and $.02/clean ton. Limestone or sandstone, quarried or mined, and other natural resources: 5% of gross value. Natural gas: 5% of gross value (10% of net tax distributed to local governments), additional tax for workers' compensation debt reduction is $.047/mcf of natural gas produced. Oil: 5% of gross value (10% of net tax distributed to local governments). Sand, gravel or other mineral products not quarried or mined: 5% of gross value. Timber: 1.22%, additional tax for workers' compensation debt reduction is 2.78%.
Wisconsin	Mining Net Proceeds Tax	Progressive net proceeds tax ranging from 3% to 15% is imposed on the net proceeds from mining metalliferous minerals. The tax brackets are annually adjusted for inflation based on the change in the GNP deflator.
	Oil and Gas Severance Tax	7% of market value of oil or gas at the mouth of the well.
	Forest Crop Law Severance Tax	10% of stumpage.
	Managed Forest Law Yield Tax	5% yield tax. This tax will be waived for the first five years of most MFL land.
Wyoming	Severance Taxes	Severance Tax is defined as an excise tax imposed on the present and continuing privilege of removing, extracting, severing or producing any mineral in this state. Except as otherwise provided by W.S. 39-14-205. The total Severance Tax on crude oil, lease condensate or natural gas shall be six percent (6%). Stripper oil is taxed at four percent (4%). Surface coal is taxed at seven percent (7%). Underground coal is taxed at three and three-fourths percent (3.75%). Trona is taxed at four percent (4%). Bentonite, sand and gravel, and all other minerals are taxed at two percent (2%). Tertiary Oil (4%). Natural Gas (6%). Uranium (4%).

Source: The Council of State Governments, 2015.

Note: Severance tax collection totals may be found in the Chapter 7 table entitled "State Government Revenue, By Type of Tax."

Key:

(a) Application of tax is same as that of title unless otherwise indicated by a footnote.

(b) Tax rates and applicability for these severance taxes determined by a vote of the appropriate association within the seafood industry, by the Alaska Seafood Marketing Institute, or by the Department of Revenue. Proceeds from these elective assessments are customarily appropriated for benefit of the seafood industry.

(c) Metallic minerals, molybdenum ore, coal, oil shale, oil, gas, CO_2, and coalbed methane. Petroleum Profits Tax (PPT) was changed in 2007.

(d) As of July 1, 2007, set at .0007 mill/$1.

(e) Clay, gravel, phosphate rock, lime, shells, stone, sand, heavy minerals and rare earths.

(f) Fee sunsets in 2018 under state law.

(g) Buyer deducts amount from payment to grower; amount forwarded to Department of Natural Resources.

(h) Petroleum, oil, gas and other hydrocarbons. Oil inspection fee rate based on Department of Revenue factsheet.

(i) Coal, oil and gas, based on Department of Revenue information.

(j) Oil inspection fee rate based on Department of Revenue factsheet.

(k) Coal, oil and gas, based on Department of Revenue information.

(l) Production is considered commercial when it exceeds 50,000 tons annually. There is a six-year phase-in of the tax. In years one and two, the rate is zero. In year three, it is 25% of the statutory rate and 50% and 75% in years four and five respectively. An Aggregate Materials Tax is imposed by resolution of county boards. It is not required that any county impose the tax, which is $.10/cubic yard or $.07/ton on materials produced in the county.

(m) Metals, precious and semi-precious stones and gems.

(n) The maximum rate of 0.3% is split between the Oil or Gas Conservation Tax and the Oil, Gas and Coal Natural Resource Account Fund. Currently the Oil or Gas Conservation Tax is .18% and the Oil, Gas and Coal Natural Resource Account Fund tax rate is .08%.

(o) Cement and gypsum or allied products.

(p) Natural resources except oil, natural gas, liquid hydrocarbons or carbon dioxide.

(q) Oil, coal, gas, liquid hydrocarbons, geothermal energy, carbon dioxide and uranium.

(r) Rate reduced by 50% if burned in cogeneration facility using renewable resources as fuel to generate at least 10% of its energy output. Coal shipped out of state is subject to the $.02/ton tax and 30% of the $.375/ton tax. The coal may be subject to up to the $.375/ton tax at the option of the county in which the coal is mined.

(s) Asphalt and ores bearing lead, zinc, jack, gold, silver, copper or petroleum or other crude oil or other mineral oil, natural gas or casinghead gas and uranium ore.

(t) Any mineral fuel used in the production of energy, including coal, lignite, petroleum, oil, natural gas, uranium and thorium.

(u) Counties and municipalities also authorized to levy severance taxes on sand, gravel, sandstone, chert and limestone at a rate up to $.15/ton.

(v) Fees will not be collected when Oil-Field Cleanup Fund reaches $20 million, but will again be collected when fund falls below $10 million.

RANGE OF STATE CORPORATE INCOME TAX RATES

(For tax year 2016 -- as of January 1, 2016)

STATE	TAX RATE (percent)	TAX BRACKETS LOWEST	TAX BRACKETS HIGHEST	NUMBER OF BRACKETS	TAX RATE (a) (percent) FINANCIAL INST.	FEDERAL INCOME TAX DEDUCTIBLE
ALABAMA	6.5	----Flat Rate----		1	6.5	Yes
ALASKA	0 - 9.4	25,000	222,000	10	0 - 9.4	
ARIZONA	5.5 (b)	----Flat Rate----		1	5.5 (b)	
ARKANSAS	1.0 - 6.5	3,000	100,001	6	1.0 - 6.5	
CALIFORNIA	8.84 (c)	----Flat Rate----		1	10.84 (c)	
COLORADO	4.63	----Flat Rate----		1	4.63	
CONNECTICUT	7.5 (d)	----Flat Rate----		1	7.5 (d)	
DELAWARE	8.7	----Flat Rate----		1	8.7-1.7 (e)	
FLORIDA	5.5 (f)	----Flat Rate----		1	5.5 (f)	
GEORGIA	6.0	----Flat Rate----		1	6.0	
HAWAII	4.4 - 6.4 (g)	25,000	100,001	3	7.92 (g)	
IDAHO	7.4 (h)	----Flat Rate----		1	7.4 (h)	
ILLINOIS	7.75 (i)	----Flat Rate----		1	7.75 (i)	
INDIANA	6.5 (j)	----Flat Rate----		1	8.5 (j)	
IOWA	6.0 - 12.0	25,000	250,001	4	5.0	Yes (k)
KANSAS	4.0 (l)	----Flat Rate----		1	2.25 (l)	
KENTUCKY	4.0 - 6.0	50,000	100,001	3	--- (a)	
LOUISIANA	4.0 - 8.0	25,000	200,001	5	4.0 - 8.0	Yes
MAINE	3.5 - 8.93	25,000	250,000	4	1.0 (m)	
MARYLAND	8.25	----Flat Rate----		1	8.25	
MASSACHUSETTS	8.0 (n)	----Flat Rate----		1	9.0 (n)	
MICHIGAN	6.0	----Flat Rate----		1	--- (a)	
MINNESOTA	9.8 (o)	----Flat Rate----		1	9.8 (o)	
MISSISSIPPI	3.0 - 5.0	5,000	10,001	3	3.0 - 5.0	
MISSOURI	6.25	----Flat Rate----		1	7.0	Yes (k)
MONTANA	6.75 (p)	----Flat Rate----		1	6.75 (p)	
NEBRASKA	5.58 - 7.81	100,000		2	--- (a)	
NEVADA	--	No corporate income tax				
NEW HAMPSHIRE	8.5 (q)	----Flat Rate----		1	8.5 (q)	
NEW JERSEY	9.0 (r)	----Flat Rate----		1	9.0 (r)	
NEW MEXICO	4.8 - 6.6 (s)	500,000	1 million	3	4.8 - 6.6 (s)	
NEW YORK	6.5 (t)	----Flat Rate----		1	6.5 (t)	
NORTH CAROLINA	4.0 (u)	----Flat Rate----		1	6.0 (t)	
NORTH DAKOTA	1.41 - 4.31 (z)	25,000	50,001	3	--- (a)	
OHIO	(v)				--- (v)	
OKLAHOMA	6.0	----Flat Rate----		1	6.0	
OREGON	6.6 - 7.6 (w)	1 million		2	6.6 - 7.6 (w)	
PENNSYLVANIA	9.99	----Flat Rate----		1	--- (a)	
RHODE ISLAND	7.0 (c)	----Flat Rate----		1	7.0 (c)	
SOUTH CAROLINA	5.0	----Flat Rate----		1	4.5 (x)	
SOUTH DAKOTA	--	No corporate income tax			6.0-0.25% (b)	
TENNESSEE	6.5	----Flat Rate----		1	6.5	
TEXAS	(y)				(y)	
UTAH	5.0 (c)	----Flat Rate----			5.0 (c)	
VERMONT	6.0 - 8.5 (c)	10,000	25,000	3	--- (a)	
VIRGINIA	6.0	----Flat Rate----		1	6.0	
WASHINGTON	--	No corporate income tax				
WEST VIRGINIA	6.5	----Flat Rate----		1	6.5	
WISCONSIN	7.9	----Flat Rate----		1	7.9	
WYOMING	--	No corporate income tax				
DIST. OF COLUMBIA	9.4 (c)	----Flat Rate----		1	9.4 (c)	

Source: Compiled by FTA from various sources.

Footnotes on next page.

RANGE OF STATE CORPORATE INCOME TAX RATES (footnotes)

Source: Compiled by FTA from various sources

(a) Rates listed are the corporate income tax rate applied to financial institutions or excise taxes based on income. Some states have other taxes based upon the value of deposits or shares.

(b) Arizona minimum tax is $100. Tax rate is scheduled to decrease to 4.9% in tax years 2017.

(c) Minimum tax is $800 in California, $100 in District of Columbia, $50 in North Dakota (banks), $500 in Rhode Island, $200 per location in South Dakota (banks), $100 in Utah, $250 in Vermont.

(d) Connecticut's tax is the greater of the 7.5% tax on net income, a 0.31% tax on capital stock and surplus (maximum tax of $1 million), or $250 (the minimum tax). Plus, an additional 20% surtax applies for tax years 2012 and 2016.

(e) The Delaware Bank marginal rate decreases over 4 brackets ranging from $20 to $650 million in taxable income. Building and loan associations are taxed at a flat 8.7%.

(f) An exemption of $50,000 is allowed. Florida's Alternative Minimum Tax rate is 3.3%.

(g) Hawaii taxes capital gains at 4%. Financial institutions pay a franchise tax of 7.92% of taxable income (in lieu of the corporate income tax and general excise taxes).

(h) Idaho's minimum tax on a corporation is $20. The $10 Permanent Building Fund Tax must be paid by each corporation in a unitary group filing a combined return. Taxpayers with gross sales in Idaho under $100,000, and with no property or payroll in Idaho, may elect to pay 1% on such sales (instead of the tax on net income).

(i) The Illinois rate of 7.75% is the sum of a corporate income tax rate of 5.25% plus a replacement tax of 2.5%.

(j) The Indiana tax rate is scheduled to decrease to 6.25% on July 1, 2016.

(k) 50% of the federal income tax is deductible.

(l) In addition to the flat 4% corporate income tax, Kansas levies a 3.0% surtax on taxable income over $50,000. Banks pay a privilege tax of 2.25% of net income, plus a surtax of 2.125% (2.25% for savings and loans, trust companies, and federally chartered savings banks) on net income in excess of $25,000.

(m) The state franchise tax on financial institutions is either (1) the sum of 1% of the Maine net income of the financial institution for the taxable year, plus 8¢ per $1,000 of the institution's Maine assets as of the end of its taxable year, or (2) 39¢ per $1,000 of the institution's Maine assets as of the end of its taxable year.

(n) Business and manufacturing corporations pay an additional tax of $2.60 per $1,000 on either taxable Massachusetts tangible property or taxable net worth allocable to the state (for intangible property corporations). The minimum tax for both corporations and financial institutions is $456.

(o) In addition, Minnesota levies a 5.8% tentative minimum tax on Alternative Minimum Taxable Income.

(p) Montana levies a 7% tax on taxpayers using water's edge combination. The minimum tax per corporation is $50; the $50 minimum applies to each corporation included on a combined tax return. Taxpayers with gross sales in Montana of $100,000 or less may pay an alternative tax of 0.5% on such sales, instead of the net income tax.

(q) New Hampshire's 8.5% Business Profits Tax is imposed on both corporations and unincorporated associations with gross income over $50,000. In addition, New Hampshire levies a Business Enterprise Tax of 0.75% on the enterprise base (total compensation, interest and dividends paid) for businesses with gross income over $150,000 or base over $75,000. The Business Profits Tax is scheduled to decrease to 8.2% for tax years beginning on or after 2017.

(r) In New Jersey small businesses with annual entire net income under $100,000 pay a tax rate of 7.5%; businesses with income under $50,000 pay 6.5%. The minimum Corporation Business Tax is based on New Jersey gross receipts. It ranges from $500 for a corporation with gross receipts less than $100,000, to $2,000 for a corporation with gross receipts of $1 million or more.

(s) New Mexico tax rates are scheduled to decrease for tax year 2017.

(t) New York's General business corporate rate shown. Corporations may also be subject to a capital stocks tax, which is being phased out through 2021. A minimum tax ranges from $25 to $200,000, depending on receipts ($250 minimum for banks). Certain qualified New York manufacturers pay 0%.

(u) In North Carolina financial institutions are also subject to a tax equal to $30 per one million in assets. Tax rate is scheduled to decrease to 3% in tax year 2017, if certain revenue targets are met.

(v) Ohio no longer levies a tax based on income (except for a particular subset of corporations), but instead imposes a Commercial Activity Tax (CAT) equal to $150 for gross receipts sitused to Ohio of between $150,000 and $1 million, plus 0.26% of gross receipts over $1 million. Banks continue to pay a franchise tax of 1.3% of net worth. For those few corporations for whom the franchise tax on net worth or net income still applies, a litter tax also applies.

(w) Oregon's minimum tax for C corporations depends on the Oregon sales of the filing group. The minimum tax ranges from $150 for corporations with sales under $500,000, up to $100,000 for companies with sales of $100 million or above.

(x) South Carolina taxes savings and loans at a 6% rate.

(y) Texas imposes a Franchise Tax, otherwise known as margin tax, imposed on entities with more than $1,110,000 total revenues at rate of 0.75%, or 0.375% for entities primarily engaged in retail or wholesale trade, on lesser of 70% of total revenues or 100% of gross receipts after deductions for either compensation or cost of goods sold.

(z) North Dakota imposes a 3.5% surtax for filers electing to use the water's edge method to apportion income.

Understanding Nevada's

Net Proceeds
of
Minerals Tax

2007 - 2008 Edition

NEVADA TAXPAYERS ASSOCIATION

Carson City Las Vegas

UNDERSTANDING NEVADA'S
NET PROCEEDS OF MINERALS TAX

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ABOUT THIS PUBLICATION

The purpose of this publication is to provide the reader with the basics for understanding the Nevada Net Proceeds of Minerals Tax. It includes:

- ❖ A general overview;
- ❖ Answers to frequently asked questions; and
- ❖ The governing Constitutional and legal provisions.

It has been prepared in cooperation with the Taxation Committee of the Nevada Mining Association in the hope you will find this a valuable tool for understanding the Net Proceeds of Minerals Tax.

CONTENTS

GLOSSARY

BAR OR BUTTON - Mine processed metallic ores which have been reduced to these shapes before shipment to a refinery.

CENTRALLY ASSESSED - Property which is assessed by the Department of Taxation instead of the local county assessor.

CUT-OFF GRADE - The lowest grade of ore that can be economically mined, processed and sold considering all applicable costs.

DEPRECIATION - The estimate of decrease in value of a wasting asset (not land) due to such factors as use and obsolescence.

EXTRACTION - The process of removing minerals from the earth.

FISCAL YEAR - In Nevada it is that period of time from July 1 of one calendar year to June 30 of the following calendar year.

GROSS PROCEEDS - The amount the mineral actually sold for or what the mineral would have sold for in an arms-length transaction, if the mineral is transferred out of state for refining or used in manufacturing.

LOCALLY ASSESSED - Property which is assessed by the local county assessor.

MINERALS - Classes of substances occurring in nature, usually inorganic. Oil, gas and geothermal resources extracted in Nevada are included in the definition of “minerals” for net proceeds of minerals tax purposes.

NET PROCEEDS - Gross proceeds minus allowable deductions for tax purposes.

NET PROCEEDS OF MINERALS TAX - An ad valorem property tax assessed on minerals when they are sold or removed from Nevada. The tax is levied on 100% of the value of the net proceeds.

ORE GRADE - A measurement of the quantity of a mineral contained in the ore, i.e., ounces per ton of ore.

PROCESSING - After excavating, all of the actions required to prepare the mineral for sale.

REFINING - The process of separating metals contained in a button or bar.

ROYALTIES - Compensation paid to the owner(s) of mineral rights.

OVERVIEW OF MINING IN NEVADA

Mining is part of Nevada's history, past and present. Article 10 of the Nevada Constitution, ratified in 1865, provides that only the net proceeds from mines and mining claims will be taxed. From 1865 until 1989 the net proceeds of minerals tax rate was the same rate as the property tax in each county. In 1989 voters statewide amended the Nevada Constitution to set the maximum net proceeds of minerals tax rate at 5%, separate from the local property tax rate.

The net proceeds from the sale of all minerals mined or produced in Nevada are subject to the net proceeds of minerals tax with the exception of sand and gravel products, which are subject to the sales and use tax.

The total amount of the net proceeds of minerals tax collected statewide fluctuates from year to year, dependant upon the amount of material sold and the price received. For most commodities such as copper, silver, gold, oil, gypsum and other industrial minerals, the price is influenced by worldwide market conditions.

MINERALS MINED IN NEVADA

Minerals mined in Nevada include gold, silver, barite, copper, diatomite, dolomite, gypsum, limestone, lime, lithium, magnesium, manganese, mercury, perlite, precious opal, salt, silica sand, specialty clays, and turquoise. Oil, gas and geothermal resources produced in Nevada are also included in the definition of "minerals" for net proceeds of minerals tax purposes.

NEVADA COUNTIES WITH MAJOR MINERAL RESOURCES

Every county in Nevada with the exception of Douglas County and Carson City have mined mineral resources. While most of the major gold and silver mines are located in northern Nevada, Clark County has the lion's share of industrial minerals such as gypsum. The major oil fields are located in east central Nevada and the geothermal resources are mainly located in west central Nevada.

WHERE DO MINED MINERALS GO?

Minerals mined or produced in Nevada go to many different uses and places. Gold and silver are usually mined together. After processing at the mine the bars or buttons of unrefined metals contain varying proportions of gold, silver, copper and possibly other metals. Each bar is assayed to determine its contents, stamped for identification purposes, and shipped to a refinery. Most of the bars are shipped to refineries in Switzerland, but some go to refineries in the U.S. and other places. After refining, most of the metal is delivered to markets in major financial centers like New York, London and Tokyo for sale.

Other minerals have very different paths to the market. Geothermal energy is used to generate electricity and heat that are used by Nevada homes and businesses. Industrial minerals like gypsum and diatomite are manufactured into finished products in Nevada like wall board and filters and then shipped out of state. Barite is primarily shipped to oil producers out of state where it is used in drilling. Oil produced in Nevada is shipped to refineries out of state. Much of the lime produced in Nevada is used to manufacture cement for in state use and by precious metal mining companies that use it when processing ore.

WHAT IS THE NET PROCEEDS OF MINERALS TAX?

The Nevada Net Proceeds of Minerals Tax is an ad valorem property tax assessed on minerals mined or produced in Nevada when they are sold or removed from the state. With the exception of sand and gravel, the tax applies to all minerals including:

- ✧Metals (gold, silver, copper, etc.)
- ✧Industrial Minerals (clay, barite, gypsum, lime, etc)
- ✧Gemstones
- ✧Oil and Natural Gas
- ✧Geothermal Energy

This tax is separate from, and in addition to, any property tax paid on land, equipment and other assets.

HOW IS THE TAXABLE VALUE OF NET PROCEEDS DETERMINED?

The gross proceeds from the sale of the minerals minus the allowable deductions determine the taxable net proceeds. In Nevada, the allowable deductions include the actual cost of:

- ✧ Extraction
- ✧ Transportation of the mineral from the mine or point of extraction to the point of processing and sale
- ✧ Processing
- ✧ Marketing and delivery
- ✧ Repair and maintenance of equipment
- ✧ Fire insurance on plant and equipment
- ✧ Depreciation of the cost of machinery and equipment
- ✧ Contributions or payments for unemployment insurance, social security, fringe benefits for employees, etc.
- ✧ Royalties paid to claim holders, which are taxable to the recipient
- ✧ Development in or about the mine or group of mines that are operated as a unit

Included in these costs are the cost of labor, supplies, and materials required to perform these activities. Only costs incurred in the process of performing these tasks in the current tax year may be deducted. Costs cannot be carried forward to future tax years or carried back to previous tax years.

Costs that are unrelated to the direct production of minerals, such as property and income taxes, charitable contributions, liability insurance, or lobbying expenses are not deductible.

HOW IS THE TAX CALCULATED?

Royalties paid by the mining company to property owners or claim holders are taxed at 5% with no deductions. The tax must be paid by the owner or claim holder in the same year in which the royalty is received.

If the net proceeds of the mine in the taxable year totals $4 million or more the tax rate is 5%. If less than $4 million, the following applies:

Net Proceeds as % of Gross Proceeds	Net Proceeds Rate of Tax %
Less than 10	2.0
10 or more but less than 18	2.5
18 or more but less than 26	3.0
26 or more but less than 34	3.5
34 or more but less than 42	4.0
42 or more but less than 50	4.5
50 or more	5.0

It should be noted that if the property tax rate of the county in which the mine is located is greater than 2% that tax rate is the minimum.

Geothermal proceeds are always taxed at the same rate as the local property tax rate of the county in which the plant is located.

WHERE DOES THE TAX GO?

Because the net proceeds of minerals tax is an ad valorem property tax, the amount of the net proceeds times the property tax rate goes to the county where the mineral was extracted. Any additional amount of tax paid up to the 5% goes to the State. The tax is distributed in the same manner as the property tax in the county (i.e., schools, local government services, special districts, etc.)

FOR A MULTI-COUNTY MINE OPERATION, WHO GETS THE REVENUE?

Sometimes minerals are extracted from one county and processed in another county. Mine operators must carefully account for the ore and the net proceeds revenues so that the Net Proceeds Statements for each county reflect the correct production, and the proper amount of tax to be distributed to the county that was the source of the ore.

WHAT ARE THE REPORTING DATES FOR NET PROCEEDS?

As opposed to most other taxes, which are due during the fiscal year, the Net Proceeds of Minerals Tax is based on the calendar year. On February16th following the close of the previous calendar year, the "Statement of Gross Yield and Claimed Net Proceeds" for the production of each operation must be filed with the Nevada Department of Taxation, Division of Assessment Standards (DOAS). DOAS reviews the Statement and certifies the Net Proceeds and the amount of tax due by April 20. The operator then has until May 10 to pay the certified amount.

If the mine operator disagrees with the amount certified, the operator can appeal the certification to the State Board of Equalization. However, the amount certified must be paid on the date due while the appeal is pending.

By March 1 of each year, the mine operator is also required to provide a set of projections related to production for the current year to DOAS. The projection must include the amount of each mineral to be produced, the anticipated price of each mineral, projected deductions and resulting net proceeds for each operation, and any royalties the operator expects to pay. The purpose of these projections is to provide local governments with budget and planning tools.

HOW ARE NET PROCEEDS STATEMENTS AUDITED?

The Nevada Department of Taxation, Audit Division, has auditors specifically trained to audit Net Proceeds of Minerals Statements. A mine operator's books and records must remain open for audit for four years. The Audit Division can assess additional taxes for a period up to three years. A Net Proceeds audit is usually performed in conjunction with a Sales & Use Tax audit.

The Audit Division contacts the mine operator in writing to give notification that an audit will be scheduled. The amount of time needed for the audit varies by company depending on the complexity of the mine operations and the amount of information needed by the auditor. Once the audit is completed, the Audit Division will provide the results to the mine operator. The mine operator can then accept the results or can appeal any deficiency to the Nevada Department of Taxation. The amount of any deficiency must be paid at the time the appeal is filed. Appeals are heard by a neutral Hearing Officer. The mine operation can then accept the decision of the Hearing Officer, or may appeal for a hearing before the Nevada Tax Commission.

HOW DO CHANGING MINERAL PRICES AFFECT NET PROCEEDS?

Mineral prices have an obvious impact on Net Proceeds but the effects are very different in the long run as opposed to the short run. In the short run, operators do not have time to adjust their mine plans to respond to price changes, so the change in Net Proceeds is closely linked to the changes in mineral prices. However, in the long run, operators have time to adjust their mine plan. They may change it by raising or lowering cut-off grades; increasing or decreasing exploration and development expenditures; or by pursuing more or less royalty-burdened ore. When time permits these factors to be changed, Net Proceeds and prices are less closely related.

When prices rise, precious metals producers tend to process lower grade ore which increases their costs. At lower prices such low grade ore may not be mined at all. Operators also tend to increase exploration and mine development expenditures which are deductible if they are part of an ongoing operation, and they are likely to purchase new equipment and invest in facilities. When prices fall, the opposite occurs: operators generally reduce expenditures on exploration, mine development, equipment purchases and construction.

WHY DOES THE NET PROCEEDS TAX GO DOWN EVEN WHEN NET INCOME FROM OPERATION IS UP?

Normally, Net Proceeds and net income are fairly closely related. However, the two are different. Net Proceeds are defined carefully by statute (NRS 362) and regulation (NAC 362) while "Net Income" is defined by Generally Accepted Accounting Principles (GAAP). It should also be noted that GAAP rules are different for different countries.

✧ Net Proceeds statutes require deductible expenses to be deducted in the tax year in which the expense was incurred. One exception involves purchases of plant and equipment which may be depreciated over the "probable life" of the assets. GAAP rules allow for depreciation of items not allowed under Net Proceeds statutes. This may lead to a situation where deductions for Net Proceeds purposes may be more or less than deductions for calculating Net Income even though actual expenditures were identical.

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✧ Reclamation expenses are also treated differently for net proceeds and GAAP purposes.

✧ For Net Proceeds purposes, the actual cost of developmental work in or about the mine or group of mines when operated as a unit is allowable in the year the expenditures take place. For GAAP purposes, these costs are capitalized and amortized over the period of time the minerals are produced. During a period of heavy investment in near-mine development, such costs are entirely allowable for Net Proceeds purposes, but only a small portion is allowable for Net Income purposes. This results in a large variance between Net Proceeds and Net Income.

✧ The "tax year" for Net Proceeds is the calendar year, while the fiscal year for corporate reporting can end at any date, so there may be timing differences in the way revenues and expenses are reported.

✧ Mine operators may have unrelated business income such as ranching or other property interests. They may also have mineral interests outside of Nevada. This income is part of Net Income, but not reportable under Net Proceeds.

NOTES

HOW TO OBTAIN INFORMATION ON THE NET PROCEEDS OF MINERALS TAX

(see below for contact information)

General Information . . .

Nevada Mining Association

Nevada Division of Minerals

Specific Net Proceeds Tax Publications & Forms

Nevada Department of Taxation - Division of Assessment Standards

CONTACT INFORMATION

Nevada Department of Taxation
Phone: 775-684-2000
Website: www.tax.state.nv.us

Nevada Division of Minerals
Phone: 775- 684-7040
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Please submit comments or suggestions for additional information/questions to include in future reprints to. . . .

The Nevada Mining Association's Taxation Committee

The Nevada Taxpayers Association