The meeting of the Assembly Committee on Taxation was called to order at 2:30 p.m. by Chairman Paul May with the following members and guests present:

PRESENT: Mr. May
Mr. Coulter
Mr. Bergevin
Mr. Brady
Mrs. Cafferata
Mr. Craddock
Mr. Marvel
Mr. Price
Mr. Rusk
Mrs. Westall
Mr. Stewart

GUESTS: Please see attached guest register.

SB 456 - Extends tax exemption for disabled veterans to his surviving spouse.

Speaking first was Mr. Dana Greenleaf, the Legislative Chairman for the Disabled American Veterans of the State of Nevada, who introduced the following members of his committee: Mr. Bill Parcell, the State Commander; Mrs. Helen Parcell, the State Commander for the Ladies Auxiliary; Mrs. Nell Greenleaf, the Legislative Representative for the Ladies Auxiliary, and Mr. Leonard Dickerson. They are all in support of this measure which will provide a small tax exemption for the widows of the deceased disabled veterans of the State of Nevada. This provides the veterans' widows with the same $10,000 tax exemption that the disabled veterans enjoy today.

Mr. May asked the Fiscal Analyst, Dan Miles if he had any figures on the fiscal impact and was advised that the fiscal note estimates 22 widows statewide which would result in a $6,000 loss in tax revenue.

A motion was then introduced by Mr. Marvel for a "do pass"; seconded by Mr. Rusk and unanimously carried.

SB 69 - Revises factors which may be used in determining full cash value of real property for taxation.

Mr. May explained that this committee had heard considerable testimony and discussion yesterday and the bill at that time received extensive amendments. The reprint will not be back until Wednesday of this week but he welcomed any additional testimony prior to the committee taking action.

Mr. Bill MacDonald, District Attorney from Humboldt County, was present and stated that he had a question on the bill. He asked if by the advancing of the payment of the tax that is, getting rid of the policy of paying the tax one year behind and going to payment of tax currently, is that still the present intention? He was assured that is the plan. He then explained that during construction of a power plant, all of the property taxes go to the county where the power plant is being constructed. The theory being that it is not useable. The other reason is the impact during construction is quite great on the county where the plant is being built. Humboldt receives all the taxes from Valmy and they in turn have entered into an agreement with Lander County, which has substantial impact, and they pay over to Lander County, a portion of the taxes they receive each year. They meet with the County Commissioners of Lander and work out the amount of payment each year. He has been told by staff members that they should be receiving, during the fiscal year that they started collecting taxes for in July 1 of this year, $316,000 in property taxes from Valmy. That is before all the tax cuts and is as they came into the Session. The estimate that Sierra Pacific gave them, dated December 11, 1980, indicated they would have received $316,000; in fiscal year 1982-83, they would have received $549,000. If they forgive one year's taxes (which is the effect of SB 69) they could lose either $316,000 or $549,000 or one-half of what is left at this time.

Mr. Bergevin pointed out that legal counsel has indicated that the year we are forgiving will be 1917 or 1918 so all we are going to do is change the dates; nothing else will change.

Mr. May reminded the members that this bill has amendments coming and, therefore, no action was taken.

<u>SJR 21 - Authorizes differential taxation of residential property and minerals</u>.

Speaking first in support of this resolution was Mr. Bob Warren, Executive Secretary to the Nevd Mining Association, who explained that he is accompanied by several members of the mining industry and they will all be addressing this same issue. He introduced Mr. Victor Botts, General Manager of the McDermott Mine on the border of Oregon and Nevada, which is the nation's largest mercury mine. Mr. Botts also is a Humboldt County Commissioner and President of the Nevada Mining Association.

Mr. Warren explained first that this Resolution permits the Legislature to double the rate of taxation on net proceeds of mines and his Association is supporting the measure. He read his statement into the record, attached as <u>EXHIBIT I.</u> He then turned the floor over to Mr. Botts for his testimony and explained that Mr. Botts will give the committee some insights into the problem of adding taxes onto a mineral product and attempting to pass them on to the customer.

Mr. Botts read his testimony into the record, which is attached as EXHIBIT II. There were no questions from the committee and he then introduced the next speaker, Mr. Ralph Orgill, who is the Controller for Nevada Mines Division of the Kennecott Minerals Company.

Mr. Orgill submitted and read his written testimony which is attached as EXHIBIT III.

Speaking next was Mr. Roy Wilkes, Manager of the Anaconda-Nevada Molly Project at Tonopah which will come on stream soon with an expenditure of $216-million for the mine and in excess of $22-million for a new community. He stated Mr. Wilkes could give some further insights into this structure and project.

Mr. Wilkes briefed the committee on their plans for development which is located in Nye County approximately 25 miles north of Tonopah and consists of an open-pit mine concentrator, 87 miles of new power lines to the site, 20 miles of new access road and a fairly substantial subdivision development in the town of Tonopah to mitigate the impacts of moving 420 workers into the area. He is supporting the resolution as he feels it is an equitable means of maintaining the revenue levels currently being paid by the mining industry and still being supportive of the shift away from property taxes. He stated this resolution would not reap a windfall tax break to their operation. They have put together some estimates of what their taxes would be in 1982, using the old means of taxation and estimating their taxes under the proposed legislation. They find that, although there is a small tax break, it is almost insignificant. Estimates show that under the old program, property taxes would amount to $892,000 net proceeds of mines taxes would be another $533,000 sales tax at the old rate would be $910,000 for a total of $2.336-million in taxes. Under the new program, assuming a 50% cut in their property tax and with the sales tax moving up to 5.75%, the property tax would then look at $446,000; net proceeds of mines at $268,000; sales tax at $1.495-million bringing the total up to $2.28 million which gives them a slight advantage. If they look at some of the other tax legislation that is presently being considered, such as SB 690, in addition to fuels tax, it almost washes out and they cannot see a substantial difference. He was, however, cautioning people on the use of the term "windfall advantage" with this legislation. They are supporting SJR 21 because it does preserve the concept of an income tax on profits and, reiterating the comments made earlier, the mining industry and the other metals they produce which are traded on the world market are cyclical in nature and mining companies are subject to those cycles so it is nice to hold on during those lean years and stay in operation as opposed to closing the doors and typing to start up again in good times. They can't be a "boom or bust" business. They support the constitutional cap as when you are going to make investments to the tune of $216 million, you need some assurances that the environment that you are going into is going to be there and not going to change on you.

Testimony given by Cheryl Erwin, Western District, Noranda Exploration, Inc., was read into the record and is attached as EXHIBIT IV.

Mr. Richard Suman, Resident Manager of the Duval Corporation testified next in support of this resolution. Mr. Warren made the introduction and explained that the Duval Corporation is located in Battle Mountain and has, for many years, mined cooper in that location but because of the low price of copper has been unable to continue that operation. They now have developed a gold mineralization nearby and are now mining the gold open pit.

Mr. Suman pointed out that the Duval Corporation, which is a multi-state operator, participated in putting together some figures. They put together some tax comparisons based on taxable 1980; the comparative states were Arizona and New Mexico and they found that Arizona has one of the highest mine tax levies in the nation. In the study they used the proposed 5% net proceeds, 5.75% sales and use tax and reduced the ad valorem tax 50%. The resulting 1980 taxes would have been near $1.4 million, this assessment would approach the Arizona levy and be equivalent to the other major mining states levy. A breakdown of the compan's total tax bill for Nevada indicates that the ad valorem tax is only 1/6th of the sales and use tax levy using the former rate, that is, prior to May 1. Regressing to taxable 1979, they participated in the Nevada Mining Association comparison which indicated that a state study has estimated Duval sales tax some 330% less in 1979, they were approximately 300% off. In view of an unpredictable market for many minerals, operators are faced with increased overhead and have to look for ways to reduce costs, which usually result in capital investment cuts, labor reduction or ultimately a shut-down. Therefore, Duval Corporation supports the Nevada Mining Association's position on SJR 21 and they support the concept of the revenues remaining in the county of origin.

Speaking next was Mr. William Anderson, Vice President of Operation of the Sunshine Mining Company from Kellogg, Idaho, who explained his company is taking some substantial ventures in attempting to put the underground silver mine at Silver Peak into production and will soon become one of the Nevada mine operators. Mr. Anderson explained some of the action that has been taken in Idaho to amend the net proceeds concept which is the same there as is being proposed in Nevada. They plan to spend $21 million on the 16 - 1 mine and plant at Silver Peak, Nevada and to place it into production by 1982. The 16 - 1 is a straight silver mine and the profits will be very sensitive to silver prices. Most U.S. metal prices are greatly influenced by the London Metal Exchange and increased costs cannot be automatically passed on to the consumer, therefore, they are at the mercy of the world market conditions.

This past year the Legislature in Idaho decided against any new taxes for the mining industry; their severance tax was submitted but was defeated in favor of the present net proceeds tax, which is based on net profits. The metal industry feels this is the most equitable tax. With the increase in the sales and use tax passed in Nevada this year, new mining projects under development in Nevada will certainly be paying their fair share of taxes. With the increase in net proceeds tax, the operating and producing mines will increase their tax load and will be paying their full share. He added they have held the 16-1 mine at Silver Peak for 15 years awaiting favorable silver prices; the present stable tax system in Nevada was a real influence in their decision to place this mine in production. They feel there is no more equitable tax for the mining industry than the net proceeds tax.

Mrs. Westall asked what percent they were paying on the gross now and was advised by Mr. Warren that it is according to the county in which you are located. It is the ad valorem tax rate in that county and it will remain that until this bill is enacted permitting you to raise it to the 5%. In response to a question by Mr. May as to what they are averaging now, Mr. Warren stated that it runs between 2 and 2 1/2%.

Mr. Warren expressed the appreciation of the mining industry for the committee's patience in receiving this information and asked for any questions.

Mr. May stated that the testimony indicates that the mining operations are somewhat prone, considering our favorable tax climate, to stockpile and to keep producing in times of low value in mineral extraction; he asked Mr. Warren if that was a correct assumption. Mr. Warren explained that they hoped to stockpile profits during that period so that they can survive during those years when there are none and this always happens. Some mines close and others try to hang in there according to how great the loss will be. Mr. May then pointed out that the existing language that has been in existence since 1864 concerns itself with different types of mines, mining claims, patented and non-patented mines and now we are sacrificing all that language and going only to the word "minerals" or "mineralization." He stated he could not find that wording in the NRS and asked Mr. Warren for clasification of that wording. Mr. Warren explained that he doesn't know if it is defined in NRS but it is defined in numerous government publications describing all the metallic and non-metallic minerals and includes anything that would be extracted from the earth. And in response to a question from Mr. May, he agreed that could include sand and gravel; he added, however, that the sand and gravel are already taxed on a sales tax basis and not part of this concept. He stated further that if you got into production mining of turquois for example, which is considered semi-precious or other gems, they would be considered mineral and would be taxed accordingly. Mr. Howard Winn, with the Nevada Mining Association, stated that the courts have generally defined minerals many times and they include sand and gravel, geothermal, etc., and use descriptions for those items found in this country.

Mr. May emphasized that we are going into the second phase of a constitutional amendment with this and we must make certain we are providing the proper language.

Mr. May then asked for an explanation of the difference between a mine, a mining claim, patented and non-patented mines and what we are losing by deleting that language and going to the word "minerals." Mr. Warren explained that the patented mine is a mine which has gone through the process of the mining company finding some grounds upon which they feel there is mineral valuation; they develop the minerals to the point where they have a discovery that can be identified as being in production or capable of being produced. They then apply to the Federal Government for the right to patent or to own fee simple this land. If the government geologist agrees that this is a valuable deposit and can be mined with a profit, then the government will issue a patent and the mining property can be used for the purposes of mining. This is a property right the same as a property right for the purchase of a home or piece of land. Unpatented land goes through the process whereby a citizen of the United States, who is above 21 years of age, goes upon the public lands and if these lands have not been withdrawn from mineral entry, prospecting or mining, he can, if he finds a mineral deposit stake a claim by putting corner posts up. He then goes in with a map to the county recorder describing where that claim is, describing it as best he can, his right to that land to be used for mineral purposes only, is exclusive to all other rights that might be attempted to exercise excepting under the multiple use concept the ranching industry, recreation persons and others but not to the exclusion of the mining industry. Mr. May pointed out that, although he has referred to this venture as an income tax, he feels it is more of a severance tax and asked Mr. Warren for his thoughts along that line. Mr. Warren responded that the federal publication says a "severance tax" is a tax that is levied upon the severing or removing of minerals from the earth and it can be under net proceeds, under gross proceeds or a simple pound per pound tax. Most people think of a severance tax as being so much per ton whether you are making a profit or not.

Mrs. Westall asked what the effect would be if we didn't pass the constitutional amendment and what would stop us from providing for this concept under statute rather than the constitutional amendment process. Mr. Bergevin explained that under the present language in the constitution, the net proceeds of mines tie together with all other ad valorem taxes. The State of Nevada could preempt all of the other forms of taxation but they cannot take mines out of it. With regard to not taking the rest out, AJR 21 (first reprint) takes mining industry out from the other ad valorem basis and allows the Legislature to provide by law, up to 5%.

Mr. Rusk stated he was given some informational data on this measure earlier in the session which is entitled "Estimated Mining Tax Dollars that Apply to Nevada Where the Mine is Located Out of State" and the states studied include Arizona, California, Idaho, Montana, New Mexico, Wyoming and Colorado. They compared what the total taxes would be in each one of those states as compared to Nevada and the figures have been attacked a little different. In 99% of the cases, any one of the states tax would be from 5 to 20 times higher than they are presently in Nevada. He questioned whether this information was accurate or do we need to get some additional information which will bring us up to date. Mr. Warren explained that the reason there is a discrepancy is that the Department of Taxation used a computer model that was developed in Reno by a mineral economist for another study and he attempted to address all the intricicies and the variables that are contained in the other states tax policies and put them into a computer model. In so doing he understated in some instances and overstated in other instances; the model is not correct and they have had problems in trying to use it. He stated they took the data developed and had the accountants on the scene compute what they would pay if they were in that state. Also, the state underestimated in this area and they have information only on the major purchases of equipment during the previous year and they estimated the sales tax and was able to determine the sales tax on these purchases. The state did not have information on the vast amount of sales and the taxes that were paid on supplies and other major equipment purchases; these were substantial and way beyond what they had realized. Mr. Rusk reiterated that the study was not done in a similar fashion and that the corrected figures should be obtained by the Department of Taxation prior to taking any action on this resolution.

Mr. Warren advised the committee that the Senate and the Governor's Office had asked Mr. Nickson to develop some data to show how much the state would realize if we eliminated all of the deductions presently permitted under the net proceeds of mines concept. The total allowable deductions for operating costs was $150 million for the entire industry and if you apply a 2% tax rate, which is prevalent in many of the counties, you would realize for the state a total of $3 million. If you do take away all of the net proceeds deductions, you no longer have a net proceeds tax and they can't guarantee that some member wouldn't suggest that this is unconstitutional, however, if you take away less, you would generate a lesser amount. The Senate has come up with what they feel is a marvelous solution to this problem. They have found that they are not paying taxes on the diesel fuel that they presently use in the mining operations; they have had an exemption on diesel fuel like all other users of off-road diesel fuel and they are now proposing to place the tax on that. He explained that they had supported the measure in the Senate as they had made an agreement with the leadership and the Governor that if a legal tax could be found to apply to the mining industry, during the interim when they are alledgedly enjoying a windfall, which is not a windfall, then they would cooperate with it. The Senate has found a way to legally tax the mining industry and they have added a few others to it in the process. That will not generate a large amount of money, perhaps a half-million dollars.

Mrs. Westall then asked how much the mining industry paid in ad valorem taxes last year and was advised by Mr. Warren that he didn't have that figure but that the total taxes would be around $5 million and if you subtract $2 million net proceeds, then the rest would be sales and property tax, that is, the $3 million would be sales and property tax.

There was no further testimony to be heard and a motion was then made by Mr. Craddock for a DO PASS, seconded by Mr. Marvel and carried with a vote of ten ayes, Mr. Rusk voting "nay."

AB 379 - Provides for submission to voters of amendments to Sales and Use Tax Act.

Mr. May stated that, inasmuch as there was no one present to testify on this bill, there would be no action at this time.

SB 517 - Limits inclusion of insurance proceeds as income tax in determining assistance to elderly for payment of property tax.

Mr. Dan Miles, Fiscal Analyst to the Committee on Taxation, advised the committee that this bill addresses the income used for determination of eligibility for the Senior Citizens' Property Tax Assistance Program which presently includes all life insurance proceeds. This bill would amend the definition by requiring that only life insurance proceeds in excess of $5,000 would be considered income. This is a Department of Taxation bill and they have advised the fiscal effect is minimal and estimated to be less than 2% of the claimants. The reason the bill was submitted was because many of the claimants don't know about the provision in the income tax where you can deduct up to $5,000 life insurance proceeds, they wanted to be consistent with the federal law and make it legal with what they are doing.

A motion for a DO PASS was made by Mr. Bergevin, seconded by Mr. Marvel. During discussion, Mrs. Westall called attention to line 13 of the bill where it specifies "in excess of $5,000" and asked if this wasn't going to make it more difficult for people to qualify. Does it mean that they would only have to county over $5,000 and the way it is now, they have to report it all. Mr. Miles stated that was correct.

The motion passed on a unanimous vote.

There being no further business, the meeting was adjourned.

Respectfully submitted,

Nykki Kinsley

Nykki Kinsley,
Committee Secretary

ASSEMBLY

AGENDA FOR COMMITTEE ON Taxation

Date Tues May 19 1981 Time 1:30pm Room 240

Bills or Resolutions to be considered	Subject	Counsel requested*
	ALL MEETINGS OF THE ASSEMBLY COMMITTEE ON TAXATION WILL BEGIN PROMPTLY AT 1:30 PM. PLEASE ARRANGE YOUR SECHEDULES ACCORDINGLY.	
S.B. 69 -	Revises factors which may be used in determining full cash value of real property for taxation. (Continued from Monday)	
S.B. 456-	Extends tax exemption for disabled veteran to his surviving spouse.	
S.B. 517-	Limits inclusion of insurance proceeds as income tax in determining assistance to elderly for payment of property taxes.	
S.J.R. 21-	Authorizes differential taxation of residential property and minerals.	
A.B.379-	Provides for submission to voters of amendments to Sales and Use Tax Act.	

*Please do not ask for counsel unless necessary.

Date: May 17, 198[illegible]

GUEST LIST

PLEASE PRINT YOUR NAME	PLEASE PRINT WHO YOU REPRESENT	I WISH TO SPEAK FOR	AGAINST	BI
[illegible] Dept Commander	DAV Aux.			
Nel Greenley, Past Dept Com	DAV Aux			
[illegible]	D.A.V.			
Leonard L. [illegible]	DAV			
Joyce [illegible]	[illegible]			
Wm CLEMENS	SELF			
Howard Winn	Mining Assoc			
Cheryl Erwin	Noranda Exploration, Inc.			
William Anderson	Sunshine Mining Co.			
Richard H. Sumner	Duval Corporation			
LeRoy Wilkes	Anaconda Copper Co.			
Tom Myott	Anaconda Copper Co			
Tom Breechen	The Anaconda Company			
Ralph [illegible]	[illegible] Minerals Co.			
Bob WARREN	NEV. MINING ASSN.			
V. V. BOTTS	NEV. MINING ASSOC. + HUMBOLDT CO.			
JACK AVANT	FREEPORT EXPLORATION			

Date: May 19, 1981

GUEST LIST

PLEASE PRINT YOUR NAME	PLEASE PRINT WHO YOU REPRESENT	I WISH TO SPEAK FOR	I WISH TO SPEAK AGAINST	BI
Bill Fletcher	Lander County			
David Taylor	Lander County			

NEVADA MINING ASSOCIATION, INC.
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ROBERT E. WARREN
Executive Secretary
W. HOWARD WINN
Consultant

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May 19, 1981

T E S T I M O N Y

Nevada Mining Association, Inc.

Robert E. Warren, Executive Secretary

* * * *

ASSEMBLY COMMITTEE ON TAXATION

SENATE JOINT RESOLUTION 21

Mr. Chairman, members of the Assembly Committee on Taxation:

My name is Bob Warren. I am executive secretary of the Nevada Mining Association. The Association is the spokesman for some 50 of the largest mining corporations doing business in Nevada. Also members of the Association are some 600 other mining firms and individuals: small mining companies, exploration firms, geologists, prospectors, vendors of services, supplies and equipment, mining-law attorneys, and others interested in maintaining a healthy and expanding mining industry in the state of Nevada.

Mr. Chairman: If Senate Joint Resolution #21 is passed by this 1981 legislature, then ratified by the 1983 legislature and a statewide vote of the people, the legislature will be permitted to double the rate of taxation on net proceeds of mines.

As this committee knows, at the present the taxes paid on net proceeds are based on the ad valorem tax rate of the county in which the mine is located. Rates have been ranging from \$2 to \$2.50 per \$100 of assessed valuation.

SJR 21 permits the rate to increase to \$5 per \$100, or five percent statewide. This would result in a 100 percent - or greater - jump in the tax on net proceeds. No other taxpayer is being asked to pay substantially more taxes. The tax reform program is fashioned to lower - not raise - taxes. The mining industry in Nevada is the only industry targeted for a major tax increase.

Why, then, is the Nevada Mining Association supporting SJR 21? In February our board of directors <u>did</u> endorse this legislation.

Mr. Chairman, there are three reasons for the industry's support.

Exhibit I. 996

(1) <u>SJR 21 breaks the present constitutional link of the rate of taxation on net proceeds to the ad valorem tax rate</u>. Thus, in the future, the legislature can lower or raise the ad valorem rate on property without simultaneously lowering or raising the tax on net proceeds.

This ad valorem linkage created a problem at this session of the legislature--when the governor and the legislature acted to lower property taxes. In the case of the minerals industry, the tax program not only lowered taxes on mining property, but it, likewise, lowered taxes on the net proceeds of the mines.

The industry did not seek this reduction. And our board of directors, at its February meeting, unanimously adopted a motion which reads:

"The mining industry in Nevada did not initiate, nor does it encourage or support a decrease in taxes on the net proceeds of mines."

Therefore, the industry supports the provision in SJR 21 which breaks the ad valorem tax rate linkage to the tax on net proceeds.

Mr. Chairman and members of the committee: It should be pointed out in this testimony that the industry will <u>not</u> reap a so-called "windfall" from the drop in the ad valorem tax rate during the 3½ and 5 years necessary to enact SJR 21. This propety tax reduction is largely off-set by a sharp increase in expenditures for sales tax. Some companies, in fact, will "enjoy" a net loss rather than a "windfall."

This will occur because the mining industry will be contributing substantial sales tax revenues to county coffers, the result of the numerous annual purchases of costly equipment and supplies. (Some pit trucks, for instance, which sell for a half million dollars each, are being purchased in fleets from Nevada suppliers.)

The sales tax is such a large expense item for mining operations that in some cases the amounts paid exceed the taxes paid on property or on net proceeds. Unfortunately, this substantial revenue source was not computed by the governor's tax team when it was stated that the industry will realize a "windfall" from his tax package.

(2) <u>The mining industry is supporting SJR 21, also, because it preserves the important concept of an income tax</u> which permits deduction of certain operating expenses. It should be noted that the net proceeds tax (which is essentially an income tax) is paid on 100 percent of the profits. The tax is not reduced by a multiplier of 35 percent of appraised value.

The industry supports the net proceeds concept because the tax is equitable and progressive. It has served as a significant inducement to the major exploration activities underway in Nevada. Numerous U.S. and foreign companies are searching for - and finding - a variety of minerals: the precious metals, gold and silver; the base metals, such as tungsten, copper and molybdenum; a large variety of important non-metallic industrial minerals, including clays, barite and limestone; and the energy minerals, uranium, oil and geothermal resources.

Indeed, during 1980 in excess of $100 million was invested by these firms in search of minerals in Nevada. Over the decades, major investments of funds for exploration and operating facilities have resulted in the discovery of numerous important mines.

At this time, the combination of mining and agriculture serves as the economic base, the economic linchpin, of seven of Nevada's 17 counties. And when the 20 announced new mines come on stream by the end of 1983, mining and agriculture will become the cornerstone of the economy for 12 of Nevada's counties. More than $700 million will be invested by the mining industry to create this mineral production. When we include these 20 new mines with the production resulting from major expansions, we find an expected three fold increase in revenues from property tax and a more than five times increase in taxes on the net proceeds of mines.

Mr. Chairman: I pointed out that the mining industry is supporting the net proceeds method of taxation because it is "equitable and progressive." This is not just the conclusion of the mining industry. According to a 1978 study by the U.S. government, the net proceeds (net production) tax rates the highest of all taxes in terms of equity and progressivity. The report calls it "social justice." In summary, the report says:

A mine is sensitive to the ups and downs of mineral prices - when it is enjoying a period of high earnings, the mine generates high taxes. When the mine is making lesser profit, it pays less taxes. And when the mine is suffering from a low cycle in mineral prices or is temporarily flat on its back, it pays little or no taxes on net proceeds. Of course, ad valorem and sales taxes must still be paid.

The government report is called "State Taxation of Mineral Deposits and Production." It was prepared by the U.S. Department of Agriculture, in co-operation with two universities and the Council of State Governments. It describes what I call equity (and what they call social justice) with these words:

Social Justice

> The net production tax is an improvement over all the other mineral taxes when judged against social justice criteria. Net income is a much more satisfactory tax base than property value or total (gross) production when viewed from the perspective of either ability to pay or horizontal equity. (That's an economist speaking.)

> ...This tax also provides a rational basis for allowing progressivity to enter the rate schedule. If any progressivity is introduced in either a severance or a gross production tax, there is a possibility that taxes on marginal enterprises will be increased. This may drive them out of business, while the highly profitable mines are allowed to continue to pay taxes at the same rate.

(The report offers a warning, however, concerning the administration of the tax.)

> On social justice criteria, the net production tax - if designed so that it includes all the firm's relevant costs - is clearly superior to all other taxes. To the extent that deductible costs do not include all relevant costs to the firm, the tax is less satisfactory and, depending on the omissions, it may in some instances be worse than any alternative tax.

(The report also states that a production tax rates highest in consistency with national goals. It helps to avoid waste of mineral resources.)

> ...since that tax levy is a percentage of net income, the net production tax does not produce the ... incentives to restrict output as do the severance and gross production taxes.

The report does point out one "flaw" in the net production concept of taxation. It is not as dependable a tax source as is a gross proceeds tax or severance tax. The gross or severance approaches generate taxes even when the mine is not pofitable. But the industry sees this flaw as an asset. The mining industry believes - as do many others these days - that when the private sector which generates the taxes is suffering hard times, the governmental sector should not continue to spend at the same level as it did during the palmier days.

(3) Finally, Mr. Chairman, the mining industry supports SJR 21 because it preserves the concept of a constitutional cap on the tax rate.

This is extremely important to the continued growth of the mining industry in Nevada. A reasonable constitutional cap permits exploration and operating companies to predict with more confidence and accuracy the long-term rate of return on the huge investments which are necessary to put a mine into production. (We should state for the record, however, that the industry's support of the constitutional cap is not an endorsement to automatically boost the tax to the full 5%. The necessity for such an increase must be assessed by future legislatures.)

Permit me to close on a word of caution, Mr. Chairman. Your committee has received a copy of a comparison of taxes paid by five mining companies in Nevada and what they would pay if in business in seven other western states. In some instances, the state's report is highly inaccurate. Further testimony will be presented on this.

Thank you for the opportunity to explain why the Nevada Mining Association supports SJR 21.

Robert E. Warren

May 16, 1981

TESTIMONY FOR STATE LEGISLATURE

My name is Victor Botts, I am President of the Nevada Mining Association and Manager of the McDermitt Mine located at McDermitt, Nevada. I am here today to testify in favor of SJR 21 and in particular the provision for a 5% constitutional limit on the tax rate to be applied against Mine Net Proceeds.

By way of background information, McDermitt Mine produces about half of the U.S. yearly mercury consumption and about 10% of the world yearly production of mercury. McDermitt Mine, like many Nevada mines, sells it's product on a world market price and not a national or local price. If our costs of production were increased by say 20% today, I could not add 1 cent to the selling price of our product. All production costs must be absorbed in order to compete on this world market. We believe McDermitt Mine to be the most modern and efficient mercury mine in the world. However, our competitive position in relation to the world market is not what you might think. All of our overseas competitors enjoy an ore of two to ten times higher grade than the ore mined at McDermitt. All of our major competitors are government owned or subsidized. Their expenditures for environmental or worker health and safety are minimal compared to those expenses required by stringent U.S. mining regulation laws. From the foregoing, you may see that our advantage lies in our technology and efficiency. Be aware as many of us are, that the United States does not enjoy a monoply on technology and efficiency. A recent look at our country's balance of payments should certainly illustrate that point.

The Net Proceeds of Mines approach to Nevada Mine Taxation provides the mines with some advantages in their competition on world markets. During times of low product price, the mines have been able to remain open on a breakeven basis. A mine operating on a breakeven cash flow continues to pay property and sales taxes and contributes to Nevada's economy by maintaining some level of employment and purchases. Many of Nevada's mines have been in this position at one time or another. Any other type of tax, probably could have resulted in mine closures.

The inclusion of a 5% constitutional limit on Net Proceeds of Mines Taxes will demonstrate a stability in Nevada's tax system encouraging major mining investment in the state. The provision of a taxation basis and a maximum tax limit should greatly assist investors in choosing Nevada as a favorable state for mining operations. The mines of Nevada do not object to paying their fair share of taxes. They do request an equitable, reasonable, and stable tax system in order that they may remain competative in world mineral markets.

Exhibit II

TESTIMONY BEFORE THE ASSEMBLY TAXATION COMMITTEE

May 19, 1981

I am Ralph N. Orgill, Controller for Nevada Mines Division of the Kennecott Minerals Company. I also hold the position as vice-chairman of the tax sub-committee for the Nevada Mining Association. I would like to testify regarding two important elements relating to the overall state taxation policy as it relates to the mining industry.

To provide certain basic tax data that could be helpful to various interested people, the tax department from corporate offices in Stamford, Connecticut, just recently completed a month-long detailed analysis for the Nevada Mining Association comparing the state taxes on mining in six western states. This information was compiled to help correct and clarify some apparent erroneous and misleading statements being distributed among legislative and state representatives.

The analysis of state taxes compares the state tax burden which an operating mine would incur if it were domiciled in the following states: Nevada, Utah, New Mexico, Arizona, Wyoming and Idaho.

This analysis was made on the assumption that the producing mine was a separate corporation doing business only in its state of residence. An actual representative year of the producing mine's activities multiplied by a fraction was used as our base.

The state tax computations were prepared in accordance with applicable state statutes and informal conversations with state tax personnel. While there may be some differences of opinion as to deductions and additions to the tax base, any differences should have an immaterial tax effect.

Based upon summary chart 1, Nevada imposes a lower amount of tax upon the mining industry than do many other western states. Nevada's total tax burden on the producing mine would be $1.441 million compared to a range of \$1.954 million to \$4.890 million for the other states. However, numbers cannot be reviewed in a vacuum. The entire tax structure of a state and its tax base must be reviewed before any judgments can be made.

However, if we eliminate the state income tax levied by the various states we find that, with exception of Utah and Arizona, other states are more equitably taxed. Nevada has always taken pride in being able to advertise "No income tax, per se." Bar graph chart 2 reflects the level of taxation when the state income taxes are eliminated.

I would also draw to your attention the effect the increase in sales and use tax recently enacted in the State of Nevada has in the tax levy standing. Nevada is replaced by Idaho as the favored state for mining and very nearly reaches the level of taxation of New Mexico. The advalorum tax rate in White Pine County for the test year was \$2.33 per \$100. It is generally felt that even with the authorized reduction in the property tax rate in the recently passed bill it will not be material in White Pine County.

The conclusion drawn from these charts is twofold. Nevada has other sources from which to draw tax revenues (note, in fiscal year 1979, Nevada received approximately \$150 million in tax revenues from the amusement industry and \$5 million from the mining industry). The other states in our analysis rely heavily on the mining industry to provide the majority of their tax revenue. Thus, Nevada, with one of the highest per capita tax in the country, does not need to impose greater tax burdens on the mining industry.

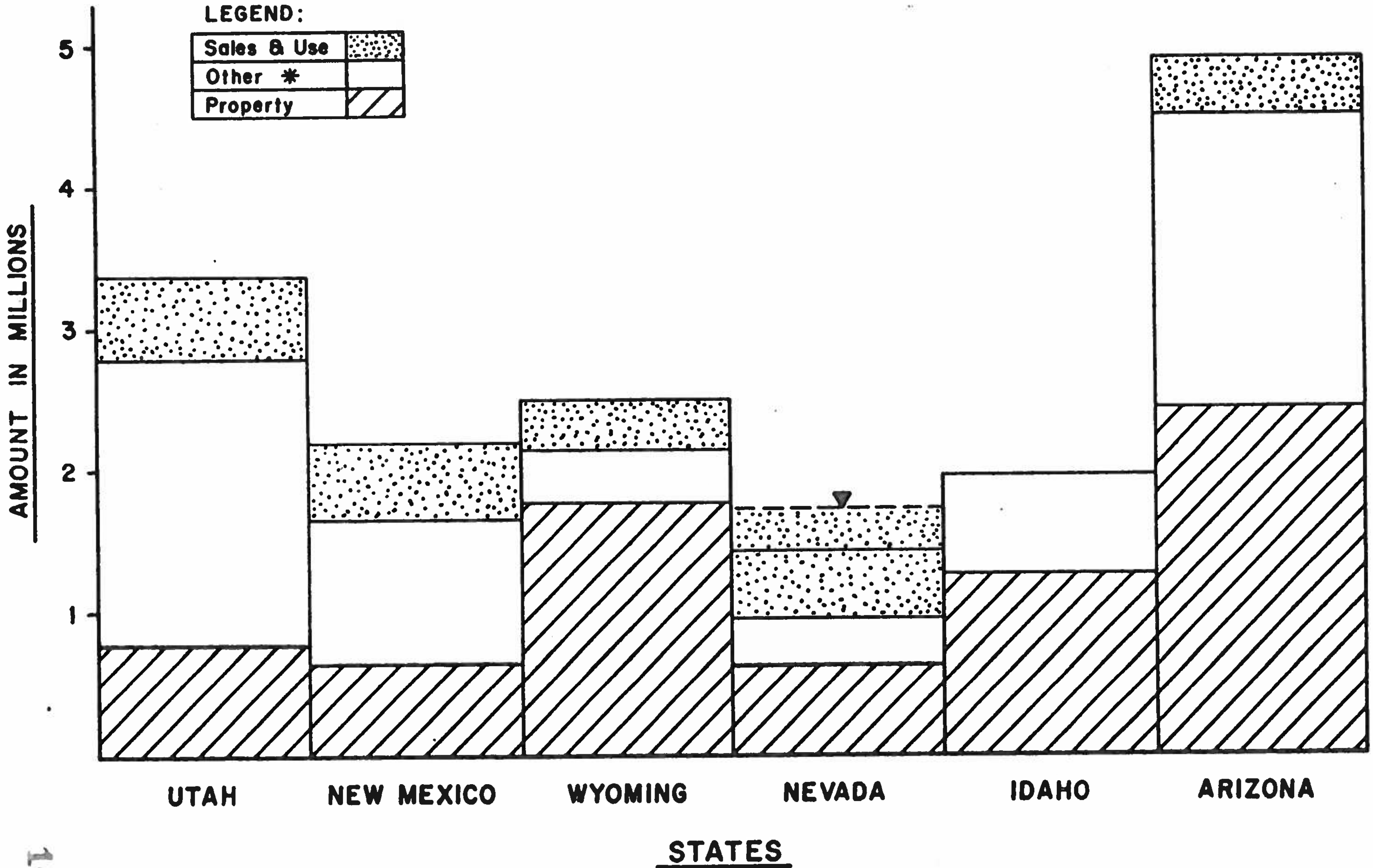
Consideration should also be given to what effect a significant increase in mining tax has on the mining industry. States with high tax burdens on mining are not having their natural resources developed. Examples of this are Wisconsin and Montana which have large reserves of natural resources that are not being developed due to their extremely high state tax structures.

In conclusion, this analysis, while showing that Nevada has a favorable tax climate for the mining industry, should be reviewed in light of Nevada's other revenue sources and its need for greater tax revenues, and not just as a comparison of how other states tax the mining industry.

CHART 1

SUMMARY OF STATE TAXES PAID ON OPERATIONS

TYPICAL NONFERROUS MINE



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* Resource Tax
Franchise Tax
Occupation Tax
Net Proceeds Tax
State Income Tax
Gross Receipts Tax
Severence Tax

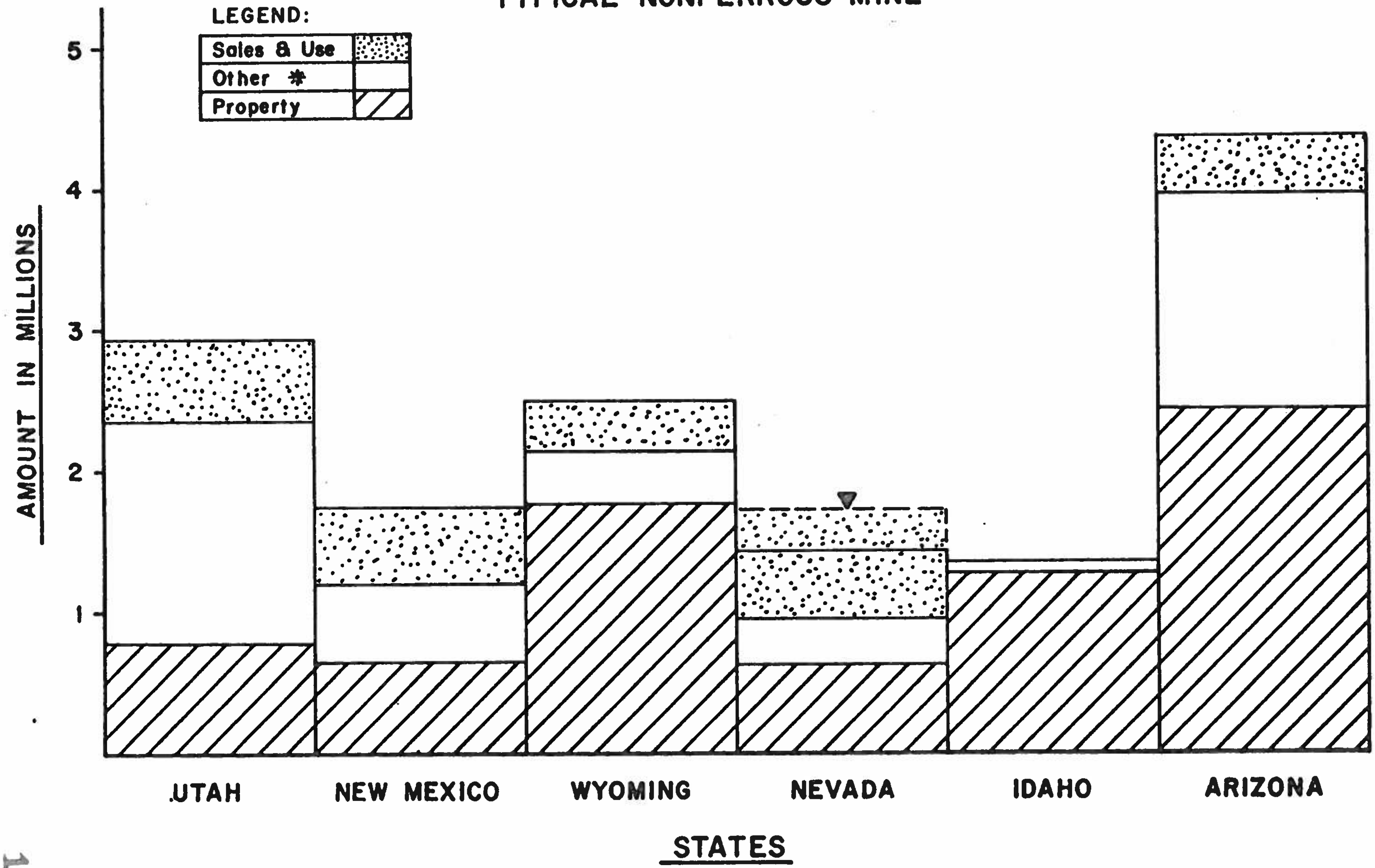
▼ With 5 3/4 % Sales & Use

Note: White Pine Co. Tax Rate = $ 2.33

SUMMARY OF STATE TAXES PAID ON OPERATIONS

(EXCLUDING STATE INCOME)

TYPICAL NONFERROUS MINE



* Resource Tax | Occupation Tax | Gross Receipts Tax
Franchise Tax | Net Proceeds Tax | Severence Tax

▼ With 5 3/4 % Sales & Use

Note: White Pine Co. Tax Rate = $ 2.33

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(Testimony delivered by
Cheryl Erwin, Western
District, Noranda Exploration,
Inc.)

STATEMENT FROM THE MANAGER OF PRE-DEVELOPMENT AND EVALUATION, NORANDA EXPLORATION, INC.

Nevada's reasonable and historically stable tax structure, including a constitutional cap on tax rates, has been instrumental in encouraging high levels of mineral exploration and mine development, which in turn have made significant contributions to Nevada's rural economy.

Nevada's current system of mineral taxation is good for both the mineral industry and Nevada's economy. A net proceeds tax structure helps insure that mines remain in operation during depressed economic periods, and enhances mine-life by allowing greater conservation of resources.

From the exploration and mine development standpoint, higher costs due to tax increases and changes in the present tax structure, and unpredictability caused by removal of the constitutional cap on tax rates, are serious matters. The long lead time and large capital investments involved in developing a new mine make predictability essential.

In general, development companies have many marginal but only a few really good investment opportunities discovered by their exploration departments. The rare, but really good mineral properties generally will be put into production despite somewhat unfavorable policies. The economic evaluation of marginal properties, however, is greatly affected by tax policies. Increases in the level of taxation raise the possibility of further increases. When we make recommendations to our management that a property be developed, we have to include

Exhibit IV

an assessment of future taxes. To be conservative, we may have to overstate possible future changes in taxation, especially if a state appears to have a habit of frequent and upward increases. The overall effect on management's decision as to whether a marginal mineral property is developed, then, is influenced by state tax policies. Non-development of marginal mineral properties means fewer jobs and less economic development in rural areas.

If our management perceives that the more marginal properties cannot feasibly be placed into production in a particular state, then exploration funds may be shifted to other areas of the country where opportunities for development are better.

Prior to the discovery of an ore deposit, millions of dollars are spent on exploration activities. Exploration expenditures in Nevada represent new money which is pumped directly into local economies, to contractors, drillers, laborers, and local businesses. Rural areas, even those that do not currently have an operating mine nearby, benefit from these activities. A less attractive tax and economic climate could mean that not only are properties not put into production, but also that these exploration funds may be diverted elsewhere.

It is worth noting that Nevada's mining industry is healthy today, but largely because of high precious metals prices and the resulting "boom" in exploration for and production of previously uneconomic deposits. This boom may be curtailed if the tax structure in Nevada is altered.

To conclude, as a member of the mineral exploration industry, we at Noranda commend Nevada on its history of reasonable taxation and its wise structure. We support SJR 21 as a reasonable change in the existing system. However, we are concerned that no change be made in the net proceeds concept, and that the constitutional maximum on taxes be preserved. We believe that with the present system, Nevada will continue to experience a golden opportunity to expand rural economic development and its long-term mining industrial base.

Thank you.