Mining Tax Overview

Presented by

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Agenda

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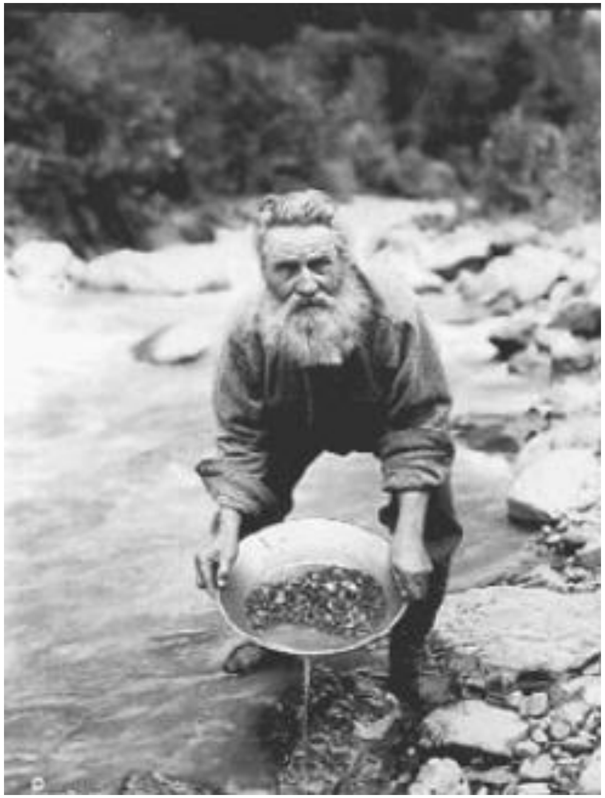

Mining Tax History

- Began in 1913; restructured several times
- Original mining license tax was 0.5% tax on mining net income and mining-related royalties over $5,000.
- Primarily from businesses engaged in coal and hard-rock mining.

Mining Tax History

- Numerous changes between 1915 and 1953 to the tax rates and the tax-free net income base.
- In 1951, adopted 3 ½ year exemption for new mining operations.
- Current tax structure since 1955 is as follows:

Mining Net Income	Tax Rate
$0-$40,000	No Tax
$40,001-$50,000	$1,200 plus 3% over $40,000
$50,001-$100,000	$1,500 plus 5% over $50,000
Over $100,000	$4,000 plus 7% over $100,000

Mining License

Who needs to have a Mining License?

Any operation that is extracting or attempting to extract valuable metals, ores, or minerals.

- Licenses are issued for each mining operation.
- Includes operations on private patented, federal, state, and native lands.
- Owners of mineral property receiving royalty payments must also get a license.

Mining License Types

- Coal
- Hard Rock
- Open Pit
- Placer
- Suction Dredging

* Placer/suction dredging make up 90% of the licenses.

License Category Types

Owner/Operator: The mineral owner and the mine operator are one and the same.

Owner/Lessor: The mineral owner who is leasing the land to an operator.

Lessee/Operator: The operator that is leasing the land from a the mineral owner.

Mining License

Who doesn't need to have a Mining License?

- A person whose mining activities are restricted to the holding of property for exploration.
- A person who holds a mineral interest in undeveloped and non-producing properties.
- Quarry rock, sand and gravel, and marketable earth mining operations (exempted in 2012).

Mining License Tax Return

Who needs to file a Mining License Tax Return?

- Any operation that is extracting or attempting to extract valuable metals, ores, or minerals.
- Owners of mineral property that are receiving royalty payments.
- Anyone holding a mining license.

Mining License Tax Return

Annual Returns are due:

- By April 30th for calendar year taxpayers.
- Before the first day of the fifth month following the taxpayer's fiscal year end.
- 6-month extension option,

Mining License Tax Calculation

- The Mining License Tax is an income tax (tax is calculated on net income from the mining property).
- Net income is gross income from mining operations less allowable mining expenses.
- Mining gross income includes:
  - Sales price or value actually received for the mined material .
  - Royalties received from mining property.
  - Production payments received from a lease.
  - Fair market value of the mined material if it is not sold, but is shipped out of the state.
- Allowable deductions include:
  - Depletion (available only to land owner)
  - Direct expenses
  - Indirect expenses

What is Depletion?

- Depletion can be thought of as depreciation of a mineral property used to extract natural resources.
- While a property is in the development stage, all development costs are capitalized and then depleted from year to year after production begins.
- There are two ways of calculating the depletion allowance: cost depletion and percentage depletion. The amount allowed on the mining license tax return is the greater of cost or percentage depletion.
- The percentage depletion cannot exceed 50% of a taxpayer's net income.

Cost Depletion Explained

- Total development costs are allowed to be deducted over the estimated life of the mine. Once all development costs are deducted (depleted), a cost depletion expense is no longer allowed.

- Cost Depletion is calculated as follows:
  - Depletion rate is the cost basis divided by estimated number of recoverable units
  - Depletion rate multiplied by the number of units sold
  - Limited to the cost basis

Percentage Depletion Explained

- Depletion is a percentage of gross income less royalties paid. Depletion is limited to 50% of net income. Depletion deduction continues even after all development costs have been deducted (depleted).

- Percentage Depletion
  - Coal mines: 10%
  - Metal mines (gold, copper, zinc, lead): 15%
  - Sulphur mines: 23%
  - Capped at 50% of net income
  - Is not limited to the cost basis

Mining Tax Exemption

- Must file an Affidavit of Initial Production with Department of Natural Resources (DNR).
- DNR will certify initial production date and inform Department of Revenue (DOR).
- DOR will issue 3.5 year exemption certificate to mining operation.
- All owners, operators, lessors, lessees of new mining operations are eligible for the exemption.

Mining Tax Credits

- Exploration Incentive Credit: A person may receive a credit for exploration costs incurred up to $20,000,000.

  Exploration costs include:
  - Surveying
  - Drilling exploration holes
  - Conducting underground exploration
  - Sampling
  - Aerial photography
  - Must be applied within 15 tax years of credit approval and may only be used to offset 50% of tax liability

- Education Tax Credit

Mining License Tax Revenue

Five-Year Comparison of Revenue

	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
General Fund	$46,917,026	$41,377,877	$10,748,547	$38,584,656	$23,291,213
CBR Fund	381,538	147,315	389,353	70,553	$166,087
Total Tax	**$47,298,564**	**$41,525,192**	**$11,137,900**	**$38,655,209**	**$23,457,300**

	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
# of Taxpayers	423	462	503	468	366

End of Presentation

Thank You

<u>Contact Information</u>

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